OVERSIGHT ON THE TOBACCO PRICE SUPPORT PROGRAM

JOINT HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
U.S. SENATE

AND

SUBCOMMITTEE ON TOBACCO AND PEANUTS
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

(RALEIGH, N.C.—FEB. 12, 1982)

AND

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
U.S. SENATE

(LEXINGTON, KY.—MAR. 15, 1982)

NINETY-SEVENTH CONGRESS

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OVERSIGHT ON THE TOBACCO PRICE SUPPORT PROGRAM

FEBRUARY 12, 1982

U.S. Senate, Committee on Agriculture, Nutrition, and Forestry, and U.S. House of Representatives, Subcommittee on Tobacco and Peanuts, of the Committee on Agriculture,

Raleigh, N.C.

The committees met, pursuant to notice, at 10 a.m., in the Kerr Scott Pavillion, North Carolina State Fairgrounds, Hon. Jesse Helms, chairman of the Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, and Hon. Charles Rose, chairman of the Subcommittee on Tobacco and Peanuts, U.S. House of Representatives, jointly presiding.

Present: Senators Helms, Huddleston, Representatives Rose, Whitley, Wampler, and Napier.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The Chairman. The Senate committee hearing will come to order. On behalf of the Senate Committee on Agriculture, Nutrition, and Forestry, we are delighted to be here this morning. I know I speak for my colleagues when I express our appreciation to you for coming to share your wisdom and experience with us. This is one of several hearings in a series being held by the Committees on Agriculture in the House and the Senate and, specifically, by the Subcommittee on Tobacco and Peanuts, which is chaired from the House of Representatives by our distinguished North Carolina Congressman Charlie Rose. I am privileged to share the responsibility of this hearing with Mr. Rose.

I should mention that there will be similar hearings in Lexington, Ky., where they also are interested in basketball, on March 15. Mr. Rose's subcommittee, as I understand it, is in the process of holding still additional hearings. We look forward to the broad input into the legislative process from the grassroots, and we anticipate hopefully the timely and effective resolution of the issues as to the legislative adjustments recommended by farmers and others who have a stake in tobacco.

In addition to Congressman Rose, we have with us today my friend and colleague on the Senate Agriculture Committee, the very able Walter Huddleston, who will be known as Dee Huddleston. Now, there are many fine people serving in various capacities in the Senate; but no chairman of any committee has ever been more blessed than I am to have as the ranking member on the Senate Agriculture, Nutrition, and Forestry Committee the gentleman sitting to my left, Dee Huddleston, from Kentucky. We extend a very special welcome to you, Dee, and we thank you on behalf of the thousands of tobacco farmers from the Flue-cured region for taking your valuable time to help us consider the tobacco issue on which we must act.

Also, I would welcome other distinguished Members of Congress: Charlie Whitley, whom all of you know; Bill Wampler, from Virginia, the ranking minority member of the House Agriculture Committee—I spent 4 or 5 months last year trying to work out a farm bill with Bill Wampler. Congressman Larry Hopkins of Kentucky was going to try to be here, but last-minute problems prevents his doing so. He is the ranking minority member of Congressman Rose's subcommittee—and, last, but certainly not least, one of the finest young men I've ever known, John Napier, Congressman from South Carolina.

Now, I'm not going to gild the lily. We all know why we are here. We are dedicated to assuring that the livelihood of 276,000 American tobacco farmers are preserved. More than 20 years have passed since any significant legislative adjustments in the tobacco program were made; and the times and congressional mandates demand that we make adjustments now. It's been done before, when necessary, and we can do it now. Every indication that I have from my colleagues in the Senate is that they expect us to make some adjustments this year. I'm sure that Congressman Rose will testify similarly, with respect to the attitude of the House of Representatives.

But, insofar as we address the issues about which they have expressed the greatest concern, my reading of the situation is that we can strengthen our tobacco program with the cooperation henceforth of some of those who have not been entirely friendly toward it. Now, those issues have been discussed extensively on many occasions, and, frankly, they are the subject of our getting together here this morning. As everyone in this room knows—but which we will state for the record—they essentially are three.

First, the no cost program: A resolution mandating a no cost tobacco program was added to the farm bill in the House of Representatives, as you know. I have stated all over this country that the tobacco program has been essentially a no cost program all along. And, in discussing the program this morning with the media, I emphasized that I wished we had a dozen commodity programs like the tobacco program, in terms of the tax benefits, the exports, and all of the other things with which you are familiar. But, now, we must have specific proposals to assure that this mandate of a no cost program is enacted into law.

Second, as you know, adjustment and fine tuning of the price support formula and the third one, as you also know, is modification in the manner in which tobacco quota allotments can be leased and transferred. This is probably the stickiest of all. The essential question here this morning, ladies and gentlemen, is the question of just how we're going to continue to operate the program in an equitable fashion that will assure the farmers, the producers of tobacco, that they are the principal beneficiaries. That's my goal as a Senator and I believe that there will be unanimity on that point.

Any direction upon which you decide to travel would not be satisfactory to everybody. That includes probably the people in this audience this morning, others who have an interest in tobacco for one reason or another, and even Members of Congress. Charlie Rose and Dee Huddleston and the rest of us work in a place where we seldom see unanimity, but we must reach as broad a consensus as is possible. I don't know of any election or any decision that has ever been made or arrived at openly in a free society which has been unanimous, and I'm sure this one will not be either. We have had our lumps. We will continue to have them. Our principal caution, I think, is that we must resist any and all attempts to create a political football out of the tobacco program. I give you my pledge that this Senator will never play politics with the tobacco program because if we begin that, we will be exercising folly and we will be giving great comfort to those who seek to destroy the program. That's why I'm especially pleased this morning at the bipartisan—maybe the better word is nonpartisan approach of our leadership on this issue. I thank all of my colleagues for that and I hope we will make that our watchword as we proceed.

I told the media people earlier this morning that I came here to listen. That does not mean that I don't have some ideas of my own. Of course, I do. But, this is your program. This is your future. All I want to do—and I'm sure that my colleagues feel the same way—is to help in any way we can in arriving at decisions that will be best for all. We want to hear what you have to say about the issues, and I'm going to stay as long as anybody has anything to say today. If that's midnight tonight, fine.

The record that we will make here today will be part of the basis upon which the Agriculture Committees in both Houses of the Congress will draft the specific legislative language.

Other Members of Congress and Senators and their staffs will study what is said here today. So, in the very real sense, this hearing and the hearings conducted earlier by Congressman Rose are merely the first step in the legislative process. So, let's begin.

I want to begin by recognizing the able and distinguished ranking member of the Senate Agriculture Committee, my dear friend, Dee Huddleston. Dee, again, it's a pleasure to have you in North Carolina; and I hope you enjoyed the basketball game last night.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator Huddleston. Thank you very much, Mr. Chairman, and I did enjoy the basketball game last night. It's always great to be in North Carolina. This is the only other State in the Union, with the possible exception of Virginia, which appreciates basketball and tobacco as much as Kentucky. And, in basketball, we owe you folks one. When we get our big fellow back, we may take you on next year.

I'm delighted to be here to participate in this hearing, and I am very pleased to have had the opportunity to work with Senator Helms as my chairman of the Agriculture Committee of the Senate—not only on the tobacco question, but on all of the farm issues that are facing this country. As we all know, they are considerable at the present time. All of us interested in tobacco are very fortunate to have the kind of leadership that Jesse Helms has given. You remember the struggles we had on the floor of the Senate in protecting the program—not just making some simple modifications, but in protecting the program itself. Some very close votes. We could not have succeeded had it not been for the effort of Jesse Helms on that Senate floor. I'm well aware, too, of Charlie Rose; and I've worked with him throughout these many years and the tremendous job he does over on the House side—Bill Wampler in Virginia, all of our Congressmen, of course, and the Congressmen from both States. Because, we appreciate what the tobacco program means to our farmers and our producers.

Governor Hunt has been very helpful to us in this effort, and it's going to continue to take the combined effort of all of us to make sure that the program continues to benefit the producers in this country.

The chairman has outlined exactly what the situation is. These hearings will be extremely helpful to all of us, first of all, in getting the firm foundation of just exactly what we ought to do; and then, for those of us who have to participate in the actual drafting of the legislation, to make sure we accomplish that. You know, when you present something in legislative form, you have to be very careful; because one sentence, a phrase, even one word can make a tremendous difference in what happens. I know that the tobacco industry is not a monolithic industry. The exact interest of every phase—the producer, the warehouseman, the manufacturer, and the exporter—they're not always precisely the same. But, in the broader context, in all reality, the interests are really all the same; because if we are not unified when we go to the floor of the House and Senate for legislation, then our case is weakened and we may suffer the kind of setbacks that would be very detrimental to the tobacco industry and to the producer himself.

We know the battles are ahead. We have come through many of them. The detractors are not going away. We will defuse issue after issue to the best of our ability—the no cost, the allotment question. There will still be those who find a reason to be against tobacco in general. We have to be prepared for that. But, every bit of ammunition we can take away by improving the program—and if we can, at the same time, make it more equitable for the people who are in the business of growing tobacco—then I think it will be a great step forward. So, I'm going to work with your representatives from North Carolina and those from Virginia and, certainly, with my chairman, Jesse Helms; and we'll have hearings in Kentucky. The burley interest will be expressed, of course, and represented; and then we will put the package together. And, hopefully, we'll have something we can all agree upon; and we can be very successful in getting that through the Congress.

I appreciate Senator Helms inviting me to participate in this hearing.

The CHAIRMAN. Thank you, Senator.

Now, we will hear from our distinguished colleague, Congressman Rose.

STATEMENT OF HON. CHARLES ROSE, A REPRESENTATIVE IN CONGRESS FROM THE SEVENTH DISTRICT OF NORTH CAROLINA

Chairman ROSE. Thank you, Mr. Chairman. The House Subcommittee on Tobacco and Peanuts is delighted to be here today to participate in a joint House-Senate hearing on the future of the tobacco price support program. All of the House Members that you see here in front of you this morning have been participating in the recent hearings that we had in Fairmont and the one that we held yesterday in Florence. We had about 800 people in Fairmont; we had about 800 people in Florence. We have found tremendous interest in this subject and a willingness to participate and to come forward with concrete ideas and suggestions.

On Monday, we will be in Charlie Whitley's district in Clinton at 10 o'clock in the morning; and on the following day, we will be in Kinston on Tuesday in Congressman Walter Jones' district.

I would like to say very plainly to all of the people that are here today that I have no idea about what should be done to the tobacco price support program. I think we all agree that we must insure no cost programs. But, we would like to hear your ideas about how that can most fairly be accomplished. Should the tobacco farmer alone be responsible for the no cost program? Should the tobacco company be asked to participate in that endeavor? Should existing excise taxes be considered as a source if that were legally possible or politically possible to accomplish that result?

And, as to how far we should go in making changes to the allotment program, I would ask you to cast your thoughts not to the next year or two, but to 10 or 20 years down the road and ask yourselves as you talk to us today, "What are you willing to help us accomplish for the future of the tobacco price support programs?" We need leaders and we need followers among the tobacco family. We don't need demagogues. We would all like $5 a pound tobacco to sell, with the requirement that somehow only your tobacco would wind up in American cigarettes. That is not the world in which we live. We need constructive ideas from people who are willing to stand up with us in the face of an easier way among the tobacco family and say, "These are hard steps that we think are necessary for the long-range future of the tobacco price support program."

I heard yesterday in Florence from widows who are very frightened of the prospects of being asked to sell their allotment so that it winds up in the hands of growers. How far should we go in having requirements as to who holds allotments? How far are you willing to go in helping us accomplish those results? These are both informational hearings, and they are educational hearings. I have no concrete ideas of anything that needs to be done, with probably one or two exceptions, like ending speculation and fall leasing. That's a unanimous cry that we've heard.

We thank you for coming. We hope that you will be patient. We hope that you will be outspoken and real in what you really believe is best for this program. I have many people who come to me and say, "Congressman, if you would do this or that, you will really be popular." But, they have a motive. They have something that they want to personally accomplish. Let's put those things aside or at least be willing to stand up and say, "This is what I want for me." I think you'll find that the men on my right here, as well as the Senators, are going to work as best we can to accomplish the maximum opportunity in Congress. We have an opportunity that hasn't existed for the 10 years I've served in the House of Representatives and that's an opportunity to make meaningful changes, not only on things that must be done now, but things that should and can be done for the long-range future.

I thank you for being here; and at this time, if you will permit me, I would like to recognize the ranking member of the House Agriculture Committee, a veteran member of the House of Representatives, the distinguished senior Congressman from the State of Virginia, the Honorable Bill Wampler, for any comments he'd like to make.

STATEMENT OF HON. WILLIAM C. WAMPLER, A REPRESENTATIVE IN CONGRESS FROM THE NINTH DISTRICT OF VIRGINIA

Mr. WAMPLER. Thank you, Mr. Chairman, and Senator Helms, Senator Huddleston, and my colleagues and Governor Hunt, distinguished commissioners of agriculture and friends of agriculture. It's a pleasure to be here in Raleigh. I don't feel altogether a stranger when I am in this part of North Carolina. During World War II, I was a Navy D-12 student for 8 months at the University of North Carolina at Chapel Hill. Later, I came back and attended a preclass school in Chapel Hill and have had the pleasure of visiting here in Raleigh and, especially, at North Carolina State University on a number of occasions. And, we in Virginia think that N.C. State is probably second only to Virginia Tech, in terms of its prestigious position as one of our great land-grant universities.

I want to take this opportunity to thank the Virginia and North Carolina and South Carolina congressional delegations, and Kentucky and other States, for helping us in our most recent problems of the tobacco program, as we were considering the 1981 farm bill. The North Carolina delegation, especially, was tremendously helpful: Senator Helms, Senator East, and your delegation in the House of Representatives. We're privileged to have three of your Representatives serving on the House Committee on Agriculture: Charlie Rose, Walter Jones, and Charlie Whitley. Without their help, I think we could not have succeeded in turning back what was a bipartisan attack on the tobacco program; but we turned it back with a bipartisan defense and we had to go on the offensive, so to speak, in order to put the issue in the proper perspective.

I am deeply aware of how much the tobacco program means to the economy of North Carolina and other States. I represent an area where we grow burley tobacco. I represent some 17,000 growers with an average allotment of less than 1 acre. So, I know how valuable this is to the economy of my area.

In the House of Representatives, during consideration of the farm bill, the so-called Foley amendment was adopted which mandated that we do certain things to bring a no net cost to the tobacco program for the taxpayers of this country. That isn't going to be difficult to do, because it is costing very little now. But, I think that would go a long way toward removing one of the arguments that the critics of the tobacco program so frequently cite. We must recognize that many who oppose smoking are going to seize about every opportunity to attack the tobacco program. I happen to believe that we still have what is called freedom of choice in this country. A person should have the right to choose to smoke or not smoke. But, the point is, we must get the program in the best possible economic position that we can; and we must also recognize that some of the changes that, of necessity, will have to be made are not the choices of this group here today. But, we are simply carrying out what we believe to be the mandate of the Congress.

Again, I want to thank you for this opportunity of being here. We want to listen and hear what you have to say. And, I pledge to you and to my colleagues, my best efforts to pass you a bill that, indeed, will receive bipartisan support of the majority of the Members of Congress. Indeed, it is a pleasure to be in North Carolina. Thank you very much.

Chairman Rose. Thank you very much, Mr. Wampler, Bill Wampler.

Our next member of the panel is our own Congressman from North Carolina, a man who was literally my right arm and who, without whose help, we would not have been successful in the House of Representatives on our side of the aisle, the Honorable Charles O. Whitley from the Third District.

STATEMENT OF HON. CHARLES O. WHITLEY, A REPRESENTATIVE IN CONGRESS FROM THE THIRD DISTRICT OF NORTH CAROLINA

Mr. Whitley. Thank you very much for those overly generous remarks, Charlie. I just want to reiterate one point that both you and our good friend, the gentleman from Virginia, Mr. Wampler, made; and that is that we have here the unique opportunity not only to put a Band-Aid on the tobacco program and do the absolute minimum that will probably be required to get us by the congressional mandate to go to a no cost program; but we have an opportunity to do the things that really need to be done in our program for the benefit of the allotment holders, the growers, the warehousemen, the tobacco companies, the agribusiness community, and everybody whose livelihood is involved with tobacco.

I think all of us have known over the years that there were changes that needed to be made; but we have always been reluctant to bring any kind of tobacco bill to the floor of the House or the Senate. That situation has prevailed in the entire 21 years that I've worked in Washington. And, now, we're going to have to bring a tobacco bill to the floor. Not only that, but it will be a bill that we can say to our colleagues is designed primarily to insure that the program will operate at no cost to the taxpayers. So, it will be a bill that's up front, that has some positive appeal and that we'll have an excellent chance of getting passed.

And, while we have this opportunity, while we have this vehicle, we certainly ought not to let it slip. Everybody who has good, positive, constructive ideas about changes in the program ought to come forward with them; and they have been coming forward at the two hearings we've alrady had all day in Fairmont, N.C., a week ago yesterday and in Florence. We're going to be continuing, as the chairman said, with two more hearings in North Carolina, I believe maybe two in Kentucky and at least one in Virginia. So, by the time we are finished, we will have the input of everybody involved in the tobacco industry.

But, I want to pledge to you that all of us are going to do our dead-level best to take advantage of this chance to improve the program to the absolute maximum that we can, as the chairman indicated, not just for now, but for down the road. And, we want you to help us. We call on you to help us in discharging this responsibility.

And, in closing, I would just like to echo what has been said by my colleagues here to my right who represent the congressional districts—Bill Wampler, in the burley area of Virginia; John Napier, just across the border in South Carolina. We on this committee have always worked in a totally bipartisan manner. We work very closely together. We think that's been one of the secrets of our success and that's the manner in which we're approaching this bill.

Thank you very much.

Chairman **Rose**. All of us at this side of the table have just come from Florence, S.C., in John Napier's district where we held the hearing yesterday. We appreciate his hospitality and his endurance in coming straight up here from that meeting. Congressman Napier, we recognize you for any comment.

STATEMENT OF HON. JOHN L. NAPIER, A REPRESENTATIVE IN CONGRESS FROM THE SIXTH DISTRICT OF SOUTH CAROLINA

Mr. **Napier**. Thank you very much, Mr Chairman. Chairman Helms, Senator Huddleston, my colleagues, Governor Hunt, Commissioner Graham, Commissioner Patrick, ladies and gentlemen, it's indeed a pleasure to be here. I spent 4 years at Davidson College in North Carolina. So, I feel very close to the people of North Carolina. I feel very close to the people of North Carolina and the people here on this panel for another reason. I am serving my first year in the House of Representatives; and in that first year, I found the most significant challenge that we have yet seen to the tobacco program.

And, I can say unequivocally, without any hesitation that it was the bipartisan efforts of the people who are sitting to my left who are responsible for maintaining the program as we know it today. Senator Jesse Helms in the Senate, and Senator Huddleston, if it had not been for them working together, we would not have a program today. Senators—Senator Helms, particularly, as chairman—from the people of the Sixth District of South Carolina, I say "Thank you."

In the House of Representatives, it so happens that you have Democratic Members. If it had not been for Charlie Rose and his efforts to put together a coalition there, if it had not been for Charlie Whitley going before the whip organization and actually working out agreements and coalitions, if it had not been people like L. H. Fountain and Walter Jones and Gene Johnston, I don't know where we would be. Bill Wampler was there leading us all. To them, we say "Thank you." And what was a bipartisan attack was defended by a nonpartisan defense. So, I am here from South Carolina to say "Thank you" to North Carolina and to say that we look to your continued leadership and your continued good judgment in these matters.

Again, Mr. Chairman and Senator, thank you for what you've done not only for your State, but what you've done for mine. Thank you, gentlemen.

I left out Senator East. I'm sorry. Nobody worked any harder. He made telephone calls, Senator, as you know; and I just wouldn't want to go back to South Carolina without thanking him.

The **Chairman**. John, I appreciate your comments about John East. When John arrived in Washington in January, we anticipated problems with the tobacco program, and you will recall "Dee," we got our strategy session going. The needs that we had—we had a number of new Senators, most of whom knew nothing at all about the tobacco program and they had read their media. I'm tempted to ask these folks to say that there is no tobacco subsidy. But, John East went to every new Member of the Senate, he being a freshman Senator and he sat down with them and explained the program. He got enough votes to prevent the approval of the amendments that would have been an unhappy result for us.

Now, it's the Chair's pleasure to call his personal friend and a distinguished North Carolinian as the very first witness, the able chief executive of the State of North Carolina, Gov. James Hunt. If you will, step forward, sir.

Governor, we appreciate your coming here this morning; and we look forward to your testimony. Thank you very much.

STATEMENT OF HON. JAMES B. HUNT, JR., GOVERNOR, STATE OF NORTH CAROLINA

Governor **Hunt**. Thank you very much, Mr. Chairman.

Chairman and members of the Senate Committee on Agriculture, Nutrition, and Forestry—I'm glad that you have named it that way. Maybe that will get a lot of other people interested in what we're doing—Chairman Rose and Congressman Whitley and members of the House Agriculture Subcommittee on Tobacco and Peanuts, as Governor of North Carolina, the Nation's No. 1 State in tobacco production and manufacturing, I want to begin this hearing today by thanking you for holding this and other hearings on ways to improve and strengthen our tobacco program. I'm proud to be a part of this great crowd here today and others that you were having at these other hearings in welcoming you and assuring you that we are deeply interested in your mission and prepared to do that hard thinking and make those hard decisions that you have suggested we need to do. We do appreciate the leadership of our North Carolina leaders—Senator Helms and Congressman Rose, as chairmen of these committees so crucial to the people of our State—especially, the work of Congressman Whitley—and the other members of our North Carolina delegation—in the battles of this past year.

The tobacco program, as some of you have eluded to already, has been eminently successful over a period of more than 40 years. It's not a Government program. It's a farmers' program, started by farmers, supported by them, changed by them every time we have needed to make changes to improve it.

I'm known as the Governor, along with many of the southern Governors, in particular, who works real hard for economic growth, trying to bring in new industry, new jobs, to increase the income of our people. I can say to you that this program has kept many small farmers in business. It's added hundreds of millions of dollars to the agricultural economy in this and the other tobacco producing States. But, as we all know, certain features of our program have gotten out of kilter, so to speak; and now we do need some modifications, some fine tuning. The Congress has promptly mandated that the program must be operated by no net cost to taxpayers, other than administrative costs; and this will necessitate administrative and some legislative changes. I believe the vast majority of our growers recognize the seriousness of the problems that have arisen in connection with the tobacco program in recent years. I think most growers are ready now, as perhaps never before, to accept needed and desirable changes.

I support very strongly the no cost position of the Congress, a position that I know was suggested by our Members of the Congress and that I think is exactly what we should do. In this country, we must balance the Federal budget. Huge deficits will ruin this country. We've got to balance it, and tobacco farmers are willing to accept their share of the responsibility for this task. In fact, I think that growers are so tired of hearing the program referred to inaccurately as a subsidy program that I believe they will welcome the opportunity to make absolutely certain that the price-support program operates on the basis of no net cost to the taxpayer, period.

A consensus appears to be developing among growers in favor of a checkoff to be collected when the producer markets his tobacco to pay for this program. Such a checkoff, if authorized, I would urge be made large enough to provide adequate reserve funds to take care of price support losses. I'm aware that there's considerable pressure for change in the quota and allotment system. A substantial majority of allotment holders no longer grow tobacco. Instead, they lease out their quota for production on other farms. The leasing rates charged actual producers have risen until they now account for about 20 to 25 percent of the average market price received for the tobacco.

That situation has evoked much criticism not only in tobacco areas, but also from our friends in Congress who are from nontobacco areas. There is, of course, a danger of getting away from the historical view that the quota belongs to the land, not to the man. A big step away from this principle was taken back in the 1960's when lease and transfer was authorized. The more we separate the quota from the land, the more problems we may create in regard to both the integrity and the public image of the programs. Yet, despite its shortcomings, lease and transfer provides some needed flexibility for bona fide tobacco growers who need to expand their production in order to take advantage of mechanization. Perhaps some of the abuses of lease and transfer can be eliminated by discontinuing fall leasing.

Consideration is now being given to a provision permitting sale of allotments within each county. Gentlemen, I would strongly urge that you recognize that the better financed and large land-based farmers are the ones who are going to be in the better position to bid for allotments that may be offered for sale. Many of our young farmers have to rent. They don't own land yet. They have limited equity. And, it will be tough for them to be able to go in there and buy any of that allotment. I support property rights, and a tobacco allotment is property.

If any nonfarming corporation or any nontobacco growing landowner is to be compelled to give up an allotment, I would urge that due process and opportunity for adequate compensation be provided. The rights of all parties, including tenant farmers who may be affected by the sale or the giving up of such allotments must be protected; and I would urge you to consider those tenants who are farming that land, if you make a decision to do that, which has a lot to be said for it.

Now, as for price, there is no doubt that adjustments are needed in support of lower rates for grades. Our medium and better grades are of premium quality and can command premium prices on world markets. However, our lower grades are priced noncompetitively. Tobacco is sold in qualities available in many countries at much lower prices. I can assure you that, as I have led missions to recruit industry and push the sale of our North Carolina tobacco throughout the world, I have heard time and again from buying companies that they can get tobacco that's comparable to some of our lower grades, perhaps some of our lower stalk tobacco, much, much cheaper from other countries in the world.

I think there is merit in authorizing the U.S. Secretary of Agriculture, with the required help of a producer advisory committee, to adjust price supports by grades, in order to hold down increases on grades which are in excess supply, are not in demand and appear likely to cause losses in the low program. Let me urge right here, now, that, to the extent that we give greater authority to the Secretary of Agriculture—and you must give substantial authority. He has it now—I want to urge that the Producer Advisory Committee's input be kept absolutely a part of that whole process. It's essential that the Secretary of Agriculture hear from the producers, what their thoughts are and how they are affected.

Price support on the good quality, ripe, favorable grades should rise in accordance with inflation and market demand. Support levels on the lower stalk and third grades should be discounted enough to find their worth on the domestic or the export market. Some grade standards may need to be revised to separate out those grades that result from misuse or excessive use of nitrogen, M.H., or chemical ripening agents.

The tobacco program—and especially the schedule of grade loan rates—must encourage the production on the highest possible quality. That's something you really need to keep in mind all through this; that we need to be encouraging the production of what we do better than anybody in the world—and that's producing the best high-quality tobacco. That's the one place we've got it over every other country in the world. Our growers have resources to continue producing the world's finest quality leaf, and they have access to varieties, cultural and chemical practices, soil and climatic conditions, a long heritage, and the management skills to do the job. We must make sure that the program is so structured as to reward those who produce quality.

We must strive to be quality/price competitive in world markets. Since our medium and better grades are of premium quality, we expect and must have premium prices for those grades. If our lower grades are discounted, we may be able to increase export sales. However, we must watch that and make sure that, in fact, that does come about.

However, Mr. Chairman and members of these committees, when I was studying agricultural economics here at North Carolina State University—and, Congressman Wampler, we are proud to be right up there with Virginia Tech, anyhow. We appreciate that—I was taught and every farmer in this crowd here today knows that net income—not gross income, but net income is the thing that keeps farmers in business.

An increase in sales or even gross cash receipts would be futile, if we didn't produce the net return to growers. This concept now of net return is one that I would urge you, working with economists and others who are available to you—and all that we have at our land-grant institutions are certainly available for the asking—that you keep your eye on how all of these changes will affect net income.

The problems that are paramount at this time concern producers. Any program change should be in the interest of all types of tobacco if the producers desire the program, especially our friends, the burley growers, both in this State, in Kentucky, Virginia, and the other States.

Now, before closing, I'd like to repeat a long-standing concern which I feel in regard to tobacco imports. Neither—and this does bear on the whole program—neither the U.S. Customs nor the U.S. International Trade Commission has provided any real assistance to us in coping with the increasing threat posed by U.S. manufacturers and dealers continuing to increase purchases of offshore or foreign-grown tobacco.

No matter how tight you close the front door to your house, it is not going to stay warm in winter if the back door is left wide open. Likewise, we cannot maintain stable tobacco supplies and prices in this country if American manufacturers and dealers continue to bring in large quantities of cheap, foreign tobacco. We have only to look at the U.S. auto industry to see the havoc that can be wrought by unrestricted cheap imports.

Few commodities were profitable to North Carolina farmers in 1981, and all of you from our State here know that. Tobacco was profitable, and it kept many a farmer and his family and his community going and this State, in a real sense. But, tobacco was profitable only because there was a quota control in the price support program. We need to continue the tobacco program, and we must do so in separate, permament-type legislation, rather than as part of the omnibus farm bill which must be revised every 4 years.

I think, Mr. Chairman and members of these committees—I think as Congressman Whitley said that this is a golden moment in the whole history of the tobacco program. I commend you for seizing that moment. Farmers see the need for adjustments in the program to keep pace with changes in conditions. We are grateful that Congress has provided an opportunity for us to work together for a stronger, more viable tobacco program in the years ahead. We shall be counting on your support as we work together to develop a program that will be fair and equitable to all parties, as best we can; a program that will encourage the production and manufacture and marketing of quality leaf; a program that will make our tobacco quality price competitive in the world markets; and a program that can be operated at no net cost to the taxpayers of this country.

Thank you very much.

The CHAIRMAN. Governor, an excellent statement; and I say again that we very much appreciate your coming. I will say to you and the other citizens gathered here that this is not just a meeting. This is establishing legislative record and what you have said has been most helpful and important. Now, inasmuch as this is a formal legislative hearing, we are going to ask witnesses questions as they occur to Members of the House and Senate. Those questions and the answers thereto will be very important in the determination of where we go from here.

Now, if I may, it has been widely recommended that the program should be self-supporting and mandating—and you very eloquently alluded to that in your statement. Just for the record, will you give me your thinking on where the support should come from? Should all of the program costs be paid by farmers?

Governor HUNT. Mr. Chairman, I have not heard all of the recommendations. I think Congressman Rose mentioned excise taxes and various other things. I would urge you to look at all of the things that are suggested. But, I said this to you: I want the farmers to keep control of their program. I don't want to put it in somebody else's hands. Are the excise taxes going to continue, for example? President Reagan has proposed that the Federal excise taxes be phased out near the end of this decade and that the States be given the opportunity to pick them up. In that case, will they be available? I don't know all the responsibilities; but if I was going to make an error, I'd error on the side of the farmers having control over it even if it means costing us a little bit more.

I believe most farmers would feel that way. I'll be interested in what they have to say. Again, we've heard that so much of it being a subsidized program, somebody else paying for it. It's been a lie, but it's gotten around. I want us to put an end to that lie right now and for sure. So, if putting our own money up is the way to do it, I'd say let's put our own money up and let's pay for it altogether from the farmers.

The CHAIRMAN. Last year, you and I spoke to a tobacco meeting and you had another appointment and you had departed; but we engaged in a little bit of audience participation. On three occasions I asked the audience to repeat after me, "There is no tobacco subsidy." Let's do that one time this morning. "There is no tobacco subsidy." I didn't hear you. Let's go louder. "There is no tobacco subsidy." Let the New York Times and Washington Post hear it.

Governor, as friend to friend and as two who are trying to serve the people of this State, let me solicit, and I know that you will immediately agree, your help in making judgments about the details of this program. I think it's vastly important that not only those of us in Congress, but you as the chief executive of our State, be in touch. As a matter of fact, there are a number of areas of concern in government. For example, what do we do to save the country in the economic program? It's all very well and good to come up with this idea and that idea, but when you get down to the nitty-gritty and have to decide what we cut and what we don't, we have got to work together regardless of any partisan consideration.

I had a letter from you last year about the food stamp program, and we are going to have hearings or probably will have hearings on that subject. I would like to have your thinking as a Governor who has had to preside over that aspect. I would like to invite you now to come up and sit with us and counsel with us on this program, and we will be in touch and we will make the hearings at your convenience. This morning I've had several references from farmers who are talking about the unavailability of labor. They mentioned the various welfare programs and that sort of thing. Nobody wants to deprive the truly needy. But, on the other hand, I don't want to continue this situation where we have a growing percentage of people who believe they are entitled to the money in your pockets. So, we will get together on this and other things.

Do you have any questions?

Senator HUDDLESTON. We're glad to have the leadership of Governor Hunt on this question. There is one matter that I think probably it would be better to get into when we get some of the actual farmers; but I want to see how this question of allowing flexibility of the Secretary of Agriculture to adjust support levels on various grades of tobacco that might be in surplus at a particular time. I hope we get into that and try to understand all of the ramifications of it during the course of these hearings. I know that's a concern of yours, the possibility of building up surplus in particular grades that causes problems to the entire program.

However, it seems to me, if we go to a no cost mandate to start with, that alleviates some of that problem; because the problem was that it increases the exposure of the Government in expenditures and you're going to have some losses on various grades. But, I think that's one area that is crucial in developing a no cost program and, at the same time, it's one that there may be some ramifications to it.

Governor HUNT. Senator, I was just going to say, we've got the finest leadership of our Flue-Cured Tobacco Stabilization Corporation here; and I'm sure they will be interested in speaking to that today. We've got real experts, farmers, with regard to that matter; and I look forward to hearing what they say about that issue, too.

Senator HUDDLESTON. I was certainly glad to hear you raise the question and get the reaction on who—are the farmers going to shoulder this potential cost themselves. The cost has been so little till now, to keep the program in balance, there's not going to be much cost. I think we need to bear in mind that the Agriculture Committees, wherein lies nearly all of the interest in tobacco, cannot control or oppose excise taxes or other kinds of taxes. Once you commit yourself to that kind of direction, then you've taken a lot of the program out from under the people who are up there fighting for it every day; and it may cause some problems, as you've suggested.

The CHAIRMAN. Congressman Rose?

Chairman ROSE. Thank you. Governor, I think most of my colleagues on this side of the committee will agree, we've had—this is our third hearing, and you have touched more tough issues squarely than any statement we have received to this point. So, clearly, you have stayed very closely in touch with this issue; and I remember the days when we sat in the property class together in law school and you are still a good property lawyer, as well as a good tobacco farmer. "The quota belongs to the land and not the man." Is that, in your opinion, a real guiding principle that we should latch on to? The thing that troubles me—and I like that principle. I agree that, when we get away from it, we do get into trouble. But, we've got a perception in the Congress that we've created a kind of feudal system that allows people to own an allotment as an investment—and, that's also a separate problem—but that the Government has no right creating these things of value that somehow wind up belonging to people who don't directly use it to grow their own tobacco. Yet, there was a lady in Florence, S.C., yesterday who said:

> I own an allotment that I have inherited. You know, my family worked it; and I get two thousand dollars a year from it. And, I don't want to part with it; and I don't want you to take it away from me.

Then, there are critics in the Congress who say, "How do you expect us to let you continue to justify these absentee ownerships of this right to grow something?" That's a tough one and that's sort of the meat of the real problem that we face. Would you prefer to see us leave that problem alone so far as the perceptions in the Congress are concerned or have you got any wisdom in that regard?

Governor HUNT. Congressman, I think that's the toughest thing you're facing. Let me say, first of all, don't make it worse. You know, you can take this thing to a logical extreme. Suppose my county, Wilson—my home is on a tobacco farm, and my daughter is married to a tobacco farmer and he leases all of his. Suppose in that county, one farmer wound up owning all of the tobacco allotment in that county. Well, that's a ridiculous extreme; but take it to the extreme. How long do you think the tobacco program would have support? How many people in Wilson County would support it, like our young farmers now going to Washington, D.C., visiting the various leaders of the Congress and administration and what have you? That's what I think you've got to keep in mind. It isn't logically, completely consistent. Now, the fact that we allow leasing at all gets it away from the land, yes; but it is for a certain period of time. It doesn't get too far away from us. It's within the county and what have you.

You have the best feel for it. My guess is, we can live with that in terms of the Congress. I think when I contacted Members of Congress when you all were leading that fight in such a grand and successful way I told a story about the widows, as you did. And, it made an impression; and I think, you know, it—the fact that these people had something that was—they weren't wealthy people. It sustained them. It was essentially with the land, though some being leased off. I think we were able to survive that. I just say, let's be very careful. There may be some way for some additional flexibility; and you ought to look very hard for it. But, let's just don't make it so bad that sometime somebody will say, "Hey, there are only a handful of people who own any allotments in this country. Let's just throw the thing out."

Chairman ROSE. That's a good point; because we have a much broader base of support for the program because of this. So, I guess your advice would be, "OK, you have with the lease and transfer of allotments allowed the tobacco to get away from the land a little bit. Just don't let it get too far away from the land; maybe pull it back a little closer to the land, if you can. But, don't go to any extreme." I think that's good advice.

Now, there's one other thing I want to ask you. To me, one of the biggest issues is this business of closing the front door and then the back door being open. I see us potentially getting in a situation where we give the stabilization and the Secretary all the tools that they need to have a no cost program and to discount excess grades or whatever grade is not in demand and then getting plunked like a banjo by those who would use that mechanism to bring added tobacco into this country. Farmer allotments would probably shrink in response to a law that would make there be a no cost program right on, and the cold wind would come in the back door. I have found that the tobacco companies don't want—you know, they say, "Don't talk to us about how we make our cigarettes. Don't talk to us about imports. That's not a politically negotiable question." So, you know, I'm trying to be nice. I don't want to be ugly. I didn't say—is there any room for us to talk about imports at the same time we are talking about your concerns about price support levels and things like that?

Governor HUNT. Congressman, many of us have tried very hard to try to close that door. It needs to be closed.

Chairman ROSE. Yes.

Governor HUNT. Not "closed," but it needs to be—there needs to be some control on it. We still need to search for ways to do that. That's a very important matter when you look at how imports have been going up, up, up every year. I would suggest this: As you have already indicated, as you go about making all of these changes, keep in mind what is happening with regard to imports and the fact that thus far we have not been successful in controlling those imports. So, your point, I think, is a very good one and that, I think, might very well have something to do with the kind of authority you give to the Secretary of Agriculture—at the very least, what kind of consultation he has to make with farmers, their organizations, with Congress, and the Agriculture Committees.

Chairman ROSE. We may need to ask you to help us talk to some of the companies about this problem.

Governor HUNT. I'd be delighted to do that. We've got good companies. We're all a part of one big industry. They need to understand, and I think they do—intellectually, at least. They're trying to make profits. We just need to have a set of ground rules we'd like to follow that would be fair to farmers.

Chairman ROSE. Thank you, sir.

Congressman Whitley?

Mr. WHITLEY. Thank you very much, Mr. Chairman.

Governor, I want to join my colleagues in commending you on a very comprehensive statement; and, believe me, we've heard enough by now to have some basis for judging what constitutes a good statement. I notice that you have come down on the side of a selective adjustment of the price support formula; we had some testimony yesterday in South Carolina and we've had some testimony elsewhere about a sort of across-the-board change in the price support formula. Your recommendation specifically speaks to those grades or groups of related grades that are coming into stabilization stock in unusually high quantities and adjusting the price formula on those grades downward to the point within limits that they would not come in the stabilization stocks in those quantities. And, doing that; but without requiring other grades up the stalk be increased to such a degree that they wouldn't sell on the export market. Is that your position?

Governor HUNT. It is essentially, Congressman; but keeping in mind that net income thing. I think when you design a program you need to look at the whole stalk. Now, if the price is going to go down, down the stalk, it's got to go up, up the stalk—if you're going to make any money.

Mr. **Whitley**. That's the exact point I wanted to make. The present law requires a formula to be arrived at that makes the total leaf average out to a certain figure at the end. So, if you begin under the present law to begin to selectively discount certain undesirable grades, you must add on additional price support up the stalk, so that in the end, it comes out to the average. It's been argued for years that we ought to discount the less desirable grades so that they won't go into stabilization where they can't be sold either at home or abroad for profit.

But, it's a very sticky wicket to do that; and we have to keep in mind that it costs the farmer just as much to produce and cure—if he cures it. Now, if he knocks off those four lower leaves, it doesn't; but if he cures it, it costs him just as much to produce that sorry tobacco as it does the good tobacco.

Governor **Hunt**. Congressman, I think there's something you all ought to look at very closely here. I've done some of it in my background when I was working at N.C. State in ag economics, for example; but I think we ought to look real hard at how much can we increase sales of our lower stalk tobacco. It is essentially competitive with tobacco produced in other parts of the world. If we can get a larger share of that world market for that lower stalk tobacco, even if our profit margin on it is smaller—if we can sell more—then we'll have more net income. But, that's one you have to look at very carefully. We ought not to fool ourselves about what's going to happen. We need some realistic assessment of that, and we've got people here at N.C. State and other fine universities that can help us on that. We've got a lot of people who know these world markets very well. And, that would be the best of all worlds—continue to improve our quality product, which is the only kind like it in the world, and be able to sell more in the world market of that lower stalk, lower grades.

Mr. **Whitley**. Thank you very much.

Chairman **Rose**. Congressman Wampler?

Mr. **Wampler**. Governor Hunt, I want to join the others in complimenting you on a very fine commonsense statement. I think you have indeed put the issues in very clear focus, and you have given us some alternatives to examine. If I may for just a moment, let me pursue part of your statement in which you indicated that perhaps the time has come for us to give serious consideration to permitting the outright sale of allotments within a county.

We have heard testimony in previous hearings. I think there is a general consensus that, if we do permit the sale of allotments, they should be to within the county. We've heard suggestions that they should be made only to bona fide producers, as reflected by the records of the ASCS in that particular county. But, I do share your concern in your statement that we have to be particularly sensitive to the accessibility to those sales of young farmers who have limited equity and, indeed, have perhaps been renters. Do you have any recommendations as to how we might make financing available to those farmers that have limited equity, so they can in fact buy them and pay for them over a reasonable period of time?

Governor **Hunt**. Congressman, I don't have a specific for you; but if you decide to allow those sales, I would hope that the policy of our Federal Government would be to make available capital to those small farmers. Very frankly, what we've seen recently is a tightening up. It is tougher for those small and young farmers with limited equity to be able to get funds that they need just for their current operations. So, we're heading in the other direction right now in this country. If we should decide to permit sales like this, we would certainly need some kind of special provision, I would hope, to make that kind of capital available. I suspect that would be difficult to get in the current situation—the budget problems as we're having. Again, it would be seen as something special for tobacco farmers. We know how tough that is to get out of the Congress. So, I just suggest that you keep this very much in mind as you look at this possibility; and, again, I think you want to be very careful. This is one we ought to look at very hard. I'm going to be interested in finding out what you hear throughout the tobacco producing States on this issue.

I don't really know exactly how folks are feeling now. There's been a swing, I think, toward maybe making it more available to the producers. The young farmers I know need more help now. But, I'd just be awful careful about it, Congressman.

Mr. **Wampler**. Governor Hunt, one other aspect of your statement. You indicate that you would prefer to see the tobacco program considered separately on its own; and I am now serving my 18th year as a member of this committee. I think I have seen five separate farm bills move through the Congress and had some input in some degree or other in all of them. As you well know, during the consideration of the 1981 farm bill, an amendment was offered which would have drastically changed the tobacco program. It was not part of the omnibus farm bill, since tobacco, indeed, is permanent-type legislation. Prior to this year, we had always been able to prevail on the point of order, saying that the amendment is not germane to the omnibus farm bill. But, this year, the drafters of that amendment were quite clever in that they refined and restricted it so that the parliamentarian of the House voted indeed that it was germane and, therefore, was appropriately considered.

The point is this: I think we're going to come under repeated attack, either through the appropriations process or any other way that the opponents of tobacco can get to the tobacco program. This is why I was particularly pleased to hear your statement this morning saying that indeed we are going to pay for this program that will result in no net cost to the taxpayers, but also that the tobacco growers are going to control this program. It's theirs, if they're going to pay for it with limited Federal oversight. That's precisely the way I think it ought to be. Let me just assure you and all others present here this morning, to the extent that I have a word to say about it—and I hope I have a word or two to say about it—we are not going to make any changes in this tobacco program retroactive like we did in the peanut program.

I want to commend both Senator Helms and Congressman Rose for the hard work that they did in this regard, and it was not of our choosing, let me assure you. But, I think it would be a great injustice to people who legally own an allotment. I want to thank you for your leadership and we continue to look forward to working with you. Thank you, sir.

Chairman **Rose**. Thank you. Congressman Napier?

Mr. **Napier**. Thank you, Mr. Chairman. Governor, thank you very much for a very enlightening, thought-provoking statement. I have one question. It's a question that has arisen at both of the prior hearings, and our chairman gave a little axiom that the quota belongs to the land, not the man. I would just like to get your thinking, please, sir, on how you feel about the requirement that tobacco be planted every third year on the land on which the allotment is attached and, in regard to that answer, how you feel we should protect small allotment owners, if that is implemented into the law.

Governor **Hunt**. Congressman, this is again one that I don't know the full answer to. It's one I think you've got to look at what kind of hardship does that bring about. If you're talking about the widows, the retired people who are involved, they can't give active management to it now. There are very few of us in this room today that don't have parents or aunts or uncles or grandparents or somebody that owns some of that allotment. The question is, if it's got to go back on that land, what is that going to do in terms of who is going to manage it, be in charge of it and what have you. Does the owner of that allotment have to actively be engaged in that farm, in that 1 out of 3 years? I think these are things we have to look at. So, I want to see what's involved, how complicated it would be. There's a principle here, as you all have indicated, that is very important. We never can be totally consistent in this world; and therefore, the fact that we have some lease and transfer now, I think has worked reasonably well, considering the fact that we have to have a large enough operation so that farmers can get along and be able to use this farm equipment that's very high priced.

But, I don't have a full answer to that. After I heard your hearings, I think I would be able to; and I would be delighted to consult with you afterward, if that will be of any value.

Mr. **Napier**. Thank you, Governor.

The **Chairman**. Governor, again, we appreciate your coming.

I would mention again that this is a formal hearing conducted jointly by the agriculture committees of the two Houses of Congress. My staff has been reminding me repeatedly that we are supposed to abide by the rules and have some time limitations. Otherwise, you folks might get sleepy long about midnight tonight. There will be a bell to ring to indicate that the time has elapsed. We didn't want to ding the bell on the Governor of North Carolina, and I wouldn't permit it. The staff has suggested, and I think it is reasonable, but at the will of the committee members, we will innovate, Charlie, as may be desirable. The Chair would suggest that we follow the rule that is pretty much in place in both the House and the Senate, that we limit 10 minutes to spokesmen for organizations and 5 minutes for individuals. Now, we may have to tailor that a little bit as we go along.

We have two distinguished gentlemen facing up, the commissioners of agriculture of the two Carolinas, and we are certainly delighted to have them. I don't think anybody has to be introduced to Jim Graham, nor to Bryan Patrick, who is the commissioner of the South Carolina Department of Agriculture. We welcome both of you gentlemen, and you may proceed in whatever order suits you.

Commissioner **Graham**. Thank you very much, Senator Helms. Would like for you to ring that bell on me right now.

Congressman Rose, committee members, tobacco farmers——

The **Chairman**. We'll ring it, but you won't pay attention to it.

STATEMENT OF HON. JAMES A. GRAHAM, COMMISSIONER OF AGRICULTURE, STATE OF NORTH CAROLINA

Commissioner **Graham**. Thank you very much, Senator. It's good to have you back in the State, along with your distinguished committee. I shall be brief, and I agree with the Governor and the detailed statement he made. I am not going to cover the same territory he did, nor will I duplicate it and cover the same ground. You and I are here today because we are concerned about the recent attacks on our tobacco program as we know it. At the same time, we recognize the necessity of making some adjustments in the program as mandated by the Congress. This concern, which is shared by you gentlemen on this platform, prompted you to have this hearing. I am talking to the audience this morning. I want to commend and thank you for your presence here and I want the farmers and the growers and tobacco farmers to use this occasion in a spirit of understanding and unity to speak out and develop the necessary mechanisms for enhancing and maintaining this program. It is so very vital to you as individuals and to our States economy in North Carolina and our colleagues from South Carolina and all across the middle.

I do not need to list what needs to be done and appears to be done or must be done if our tobacco program is to be continued. You know what the problems are and issues which must be reckoned with, and you know full well, too, that some of these issues are not going to be simple to work out. We cannot wish them away. It is my firm and considered belief, however, that they can be worked out, that they will be worked out because of the high caliber of leadership found in every segment of the State's tobacco industry.

Now, I want it thoroughly understood: This is your meeting. As your commissioner of agriculture of this State, I want my department to serve you to the best of our ability. Therefore, I make this statement, emphasizing again, repeatedly so, time and time again, the importance of the tobacco program itself. Each one of the alternates developed here, the alternatives developed here in this hearing process must be evaluated carefully, precisely and correctly as regards to the integrity of the overall program and the very specific impact the proposal will have on the producers and farmers down the road.

We cannot be sidetracked by surface issues. We must go to the very guts, to the very foundation of your tobacco program. If this in-depth evaluation is not accomplished, we run the risk of accepting proposals which sound good, but may wreck the very strength of the current program. We need to guard against proposing a bigger solution than the relative minor problems we have in the tobacco program itself. My staff members and I are here today, and we are going to listen closely to everything that is said at this and other hearings on the tobacco program. I plan to attend everyone of them—I will. And I believe every member of this hearing panel will be guided greatly by the testimony you offer at this hearing and the ones that will follow.

This is the opportunity for tobacco farmers and growers to tell it like it is. I encourage them to do just that. Now, once we have heard it like it is, I firmly believe that there is commonsense, practical sense, and commitment on changes that can and should be done.

Let me again commend and thank you for coming today. Your presence speaks strongly of the interest of members in the tobacco program. I simply say in closing, we have got to whip this thing. I am not going to get involved in the business of the man, the land. Remember one thing: Cost of land is important.

Now, Mr. Chairman, it is my honor and my privilege—we don't get along all the time, but he's a right good fellow, the commissioner of agriculture from South Carolina. It is an honor to have him here today to present what he has on his mind. The commissioner from Virginia could not be here, but sent his regrets. So, may I present to you Hon. Byran Patrick, a graduate of the University of South Carolina—and not Clemson. I differ with him politically at times, but I want you to hear him; and we are glad to have him in North Carolina—Commissioner Byran Patrick.

Commissioner PATRICK. Thank you very much, Jim; and I graduated from the University of South Carolina in music. So, I will sing what I have to say.

Commissioner GRAHAM. That ain't in the bargain.

STATEMENT OF HON. BRYAN PATRICK, COMMISSIONER OF AGRICULTURE, STATE OF SOUTH CAROLINA

Commissioner PATRICK. It is certainly my pleasure to be here with Commissioner Graham; and we don't agree politically all the time, but we do agree on agriculture and that's when it's important.[1]

Senator Helms, Chairman Rose, and members of the panel, let me first express my sincere appreciation to Chairman Rose and his committee for coming to South Carolina yesterday.

The CHAIRMAN. Mr. Commissioner, if you would, turn your microphone a little more toward you.

Commissioner PATRICK. I thought as loud as Jim Graham was coming across I could talk from back behind the table and be heard. But, anyway, we are delighted you came to South Carolina yesterday. And, of course, as most of you know, tobacco is the No. 1 cash crop in South Carolina. But I want to tell you, Clemson is the No. 1 football team in the whole darn Nation, Jim.

Commissioner GRAHAM. Get on with what you want to talk about.

Commissioner PATRICK. I am wearing tiger paws, just the same.

We are delighted to be here in North Carolina. I am not going to go into as much detail as I did yesterday. This is North Carolina. You have already got copies of my statement. But we know that the people of this country and Congress has given us a mandate to operate this program at no cost, and I think it is good that we have got the mandate and got this opportunity. I am just going to point out three particular points that I think are important and that have a lot to do with making the program more acceptable: Beginning with the 1975 crop and continuing through the subsequent crops handled by stabilization, that all net gains on any given crop be used to absorb any losses; thus, not having one crop year stand on its own two feet. Put it together.

A grower assessment program in order to insure the operation of the tobacco price support program at no loss basis or to commodity credit, with the responsibility going to stabilization to determine the amount that the assessment would have to be to carry out the program. Now, that was the second one.

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[1] See p. 106 for the prepared statement of Commissioner Patrick.

The third one, that actually any reasonable and acceptable amount that should be taken would adjust—and I stress the word "adjust"—the current rate of escalation of the price support formula, in order to keep our tobacco as competitive as possible in the world market. We've got to have the world market as part of our markets for the tobacco that we produce.

The last thing that I am going to talk about is a little bit different. We all, I think, pretty well would like to keep the program as it is. I don't think there's any argument there. But, we understand—and I think the thing that all of us in the tobacco industry should be aware of—is that you gentlemen have got to have some plans, some program that you can sell in Washington. It isn't exactly what we would like to have; it is something that we can live with, that you can sell. I am sure when you're talking to Congressmen from California, Washington, Oregon, the Midwest, where the grain belt is and so forth, you are going to have a hard time getting enough votes, as you did before. So, I am aware of that; and I think we all should be aware of that.

Gentlemen, I am aware that tobacco faces many other problems; but I believe that imaginative thinking is in order. And what I'm about to say is not a proposal. It is something that is food for thought and give consideration to. Just suppose we decide to reduce the current penalty for selling tobacco without a marketing quota from 75 percent to 42 percent of the previous year's average price. This penalty would go to stabilization and would help to reduce the growers' assessment. If we use that 42 percent figure—and that's a hypothetical percentage—the price, the penalty for 1982 would come to 70 cents a pound. That could be adjusted and is something to think about. This penalty, I believe, is stiff enough to act as a deterrent against overplanting.

Now, let your imagination go to work a little bit what would the effect be? The effect could be a legal ceiling on rent for several areas. It could be the answer to farmers in good years who make extra pounds, due to good weather, and need an outlet to sell their tobacco. There would not be a need for fall lease and transfer, due to the fact that a farmer with excess poundage would pay a penalty. And, I believe, without fall lease and transfer, a certain amount and sizable amount of speculation would be removed from the lease and transfer price. Would such an adjustment stimulate more production? I don't think so. I don't believe too many farmers can pay 70 cents a pound penalties and make a profit. It would probably stimulate overproduction no more than fall lease and transfer is stimulating it now. The key to express production, in my opinion, would be limited by borrowing. And, I don't believe that a farmer, with the tremendous investments there, could go out and add this additional cost of investment and pay the 70-percent penalty and, at the same time, make any kind of profit at all.

Once more, Senators and Congressmen, I state, this last is just a proposal—it's something for thought—that I believe if the tobacco program would use wild, imaginative thinking over the years and come up with some ideas, I think this would solve many of the problems in tobacco, including the high lease cost. And, I don't think it would encourage overproduction. Thank you very much.

The CHAIRMAN. The Chairman, on behalf of the committee, thanks to both of the distinguished commissioners from North and South Caroina. Byran, I've not known you as long as I've known Mr. Jim Graham. Jim and I started off in a Sunday school class together many years ago.

Commissioner PATRICK. When did Jim drop out?

The CHAIRMAN. I think there was not a day during consideration of the farm bill—and, particularly during the, "crisis," on peanuts—that Jim and I didn't talk. The farmers of North Carolina know that Jim Graham is thinking about them constantly. I know the farmers of South Carolina feel the same way about you.

Commissioner PATRICK. Senator, the farmers in the United States don't have a better friend than Jim Graham all over the whole country.

The CHAIRMAN. Are there any questions?

We thank you very much, gentlemen.

Our next witness is Hoke Leggett, whose name is a household word in Hobgood, N.C., and other parts. I look back over the last year when Jack Block and some of the rest consulted me about who would be the best person to fill the second highest position in the Department of Agriculture's farm program management, which is, of course, ASCS. I was pleased then to recommend Hoke Leggett. I am pleased today again. I know one thing; Hoke is doing a good job, and I'm very proud of him. Hoke does not belong to the political party that is making the appointments in Washington these days. It wasn't all that easy for me to persuade those advisers to select a Democrat; but, then, I pointed out that Hoke, by virtue of his long record, has remarkable confidence among the farmers of this Nation. I got some of them to help me, and now the administration is very pleased that Hoke Leggett is in the job that he is in. I say to you, Hoke, you're doing a good job; and we appreciate your being here today. You may proceed.

STATEMENT OF HOKE LEGGETT, JR., ASSOCIATE ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. LEGGETT. Thank you, Mr. Chairman and distinguished members. It's a pleasure to be here to represent the administration this morning. You have already pointed out that the Agriculture and Food Act of 1981 mandated that the Secretary inform the Congress in January of what administrative changes——

The CHAIRMAN. Let me interrupt you. If you will, pull that microphone, to your right, closer to you.

Let me point out, ladies and gentlemen, that I am going to ask Mr. Leggett to be with us all day long to respond to any questions you may have. It goes without saying that he will be following the testimony and questions that come up. You may proceed. I'm sorry for the interruption.

Mr. LEGGETT [continuing]. Which we did on January 29—reported to you on two administrative changes which we are in the process of making in the tobacco program. The first of those was that the producer associations, through our contract with the Commodity Credit Corporation, are asking them to hold any profits that accrue from a crop year to cover losses in another crop year. Second, we are removing the $1 limitation that the loan associations—in our case here, Flue-cured stabilization—can charge for administrative expenses from that tobacco going under loan, and only that tobacco going under loan.

The CHAIRMAN. If you will, suspend for just one moment. The Chair respectively requests that there be as little talk as is possible. It is getting a little difficult to hear the witnesses. If you will cooperate, we will appreciate it. You may proceed, and I apologize for the interruption.

Mr. LEGGETT. These are the only two adjustments that we felt in the Department that we could make administratively toward a no cost tobacco program. We believe they will lend themselves toward going forward to a no cost tobacco program. Realizing that these two alone will not do it, we have also made two recommendations for legislative changes, as well as mandated by the Foley amendment to the Agricultural Act of 1981. Those two were, one, a checkoff system whereby a marketing fee would be collected on each pound of tobacco marketed by a producer or others to offset any losses by Commodity Credit Corporation. Second was that you would authorize the Secretary to make adjustments in the loan price structure for tobacco, that we might adjust those grades that appear in surplus supply within the loan association. There were certain necessary assumptions that we had to make in order to make these recommendations to the Congress and to advise them of the administrative changes. And, I think maybe some of those here would be interested in the term "administrative expenses" normally incurred by most other programs.

It was determined that those expenses that are accrued in Washington for administration of the program in Kansas City at the Kansas City management field office, at the State and county offices were considered as administrative expenses; that the operation of the loan associations, the operation of the loan program by borrowing from Commodity Credit Corporation, and the interest charged by Commodity Credit Corporation would be those expenses that should be at no cost or at no loss to the Government.

Mr. Chairman, I believe this covers pretty well what we have recommended to you; and we will be happy to respond to any questions the members might have.

The CHAIRMAN. Before we go into the questions, I want to recognize a member of the State ASCS committee, Marshall Grant, who was appointed by the President to be chairman of the State ASCS committee. I want to pay my first respect to this fine citizen. I think it would be difficult to find anyone else in North Carolina with greater respect than Marshall enjoys. Marshall, are you here? I'm glad to see you. Now, the four members are Allie McCullin, Edgar Starnes, "Bo" Biggs, and the lady who saves the looks of that crowd, Ruth Brown.

Senator Huddleston, do you have a question?

Senator HUDDLESTON. If I might take just a minute, Mr. Chairman. Hoke, Mr. Leggett, on the trust fund that would be envisioned to provide a reserve, is it anticipated that that checkoff or that deduction from the producer's check would be for all producers who brought the tobacco in the warehouse and not just those that actually have their tobacco taken into Flue cured?

Mr. LEGGETT. Yes, sir.

Senator HUDDLESTON. Is it anticipated that the producers association itself would maintain the possession of those funds and control of them, rather than have them go into the general fund or into a fund at the Agriculture Department?

Mr. LEGGETT. Senator Huddleston, we did not make a recommendation on that. We have left these purposely very broad, that you gentlemen in Congress might dictate those things you think are necessary for the proper operation of it. We made rather broad recommendations, rather than being very specific.

Senator HUDDLESTON. Do you anticipate it would be possible that the producers association could maintain these funds and that they would not be taxable funds to the association?

Mr. LEGGETT. I would assume that would be very possible.

Senator HUDDLESTON. Now, the administrative expenses—as I understand it, you have pretty well cut those off from the level of the producers association itself?

Mr. LEGGETT. That's correct.

Senator HUDDLESTON. And, the money it costs the association is the part that has to be covered; they have to take care of?

Mr. LEGGETT. Yes.

Senator HUDDLESTON. Does it make any sense that this is, in fact, an extension of the administration of the Department itself and, perhaps, those expenses ought to be included in the normal administrative expenses?

Mr. LEGGETT. Senator Huddleston, we spent many long hours going back and forth over this; and there are, of course, two sides to it. We came to the conclusion that the tobacco growers would probably be better off in the long run if the administration of the loan associations weren't covered as costs to the program.

Senator HUDDLESTON. I think it might—everybody here, I'm sure, recalls that there has already been a shifting of expense even before we were dealing now with a new mandate, in that we did impose the inspection and grading fees on the producer and the interest rate for the loans that the producers associations make from C.C.C. has been raised already. I think the general public and press ought to realize that that part of the program is already self-sustaining.

Mr. LEGGETT. Senator Huddleston, of course, we covered many other crops along those same lines, as far as user fees were concerned and interest rates.

The CHAIRMAN. Before we go to questions on the House side, I want to recognize John Cooper, who is the State executive director for the ASCS. John, where are you? And, Dr. Charlie Pugh, extension specialist out of N.C. State University. He is one of the most, foremost experts in the tobacco program and in tobacco economy. I would mention that Charlie has submitted his testimony in writing for the record. Charlie, where are you? Way in the back. OK, hold your hand up so people can see you. The reason I'm doing this, Charlie, you're going to stay around the rest of the day—is that correct?—and assist us in answering questions? If individuals have questions, just sock it to us.

Charlie?

Congressman Rose. Thank you. I'll be brief, Mr. Chairman. Hoke, on administrative actions that the Department took, you say that you're going to implement procedures whereby all or portions of net gain realized by producer associations from the sale of one crop of loan tobacco would be available to offset losses incurred by the association on other crops. Hoke, has that been written yet?

Mr. Leggett. That is in the process of being written now.

Chairman Rose. Would your regulations, as you're drafting them, allow Flue-cured stabilization to actually take the profit moneys and put it to work by loaning it out to farmers so that it could then reduce the amount of money that it has to borrow from the Commodity Credit Corporation? Is that permissible under the way you're writing the regulations?

Mr. Leggett. The way we are writing the regulations would be changing the contract between the Commodity Corporation and the loan associations. I would assume that would be governed under the charter of the particular loan association.

Chairman Rose. Well, OK. Go back; and when you do, take a look at that; because I personally feel—and I am subject to be argued with by my brothers here on the committee—that, if we do have a checkoff system or if we do have profits, that the greatest thing that the Commodity Credit—that the stabilization can invest those checkoff or profit funds in is the tobacco of the members of their co-op, rather than have to hold it or get special permission from the Internal Revenue Service to invest it. If they could put it directly out to work, the day may come when stabilization has enough money to loan out everything it needs to tobacco farmers and doesn't have to borrow it at 14, 15, 16 percent from the Commodity Credit Corporation. Will you keep that in mind, please, sir?

Mr. Leggett. I certainly will. And, we have already discussed it.

The Chairman. Charlie, will you yield?

Chairman Rose. Yes, sir.

The Chairman. I think I ought to point out that there are going to be hearings, undoubtedly, in Washington at which time we will go into the administration's recommendations. But, just for the record, Hoke, I want to ask you, when will the adinistrative changes be implemented?

Mr. Leggett. They will be implemented for the 1982 crop as we move into our new agreements with the loan associations.

The Chairman. Do you plan to meet with producer groups before you finalize your recommendations?

Mr. Leggett. These two recommendations are being worked out with the boards of directors of the various loan associations. I believe the board of directors of the Flue-cured stabilization went to Washington about 2 weeks ago and spent half a day or more with our tobacco division.

The Chairman. I think this is an important thing that you must do, to be sure that you have input from the producers on that.

Mr. Leggett. There are a number of technical questions, of course, involved; and we have to look at all of the legal aspects of these and the arrangements that we might make with the Commodity Credit Corporation.

The **Chairman**. Very well.

Congressman Whitley?

Mr. **Whitley**. Thank you, Mr. Chairman. I, too, will be brief. Hoke, I want to commend you, the household word of Hobgood, for sticking to the strict lettering of the congressional mandate, to make such recommendations as the Secretary felt were necessary to provide a no cost program. You limited yourself to that, and I think very profitably so. You and I have talked privately about the situation prior to publication of these regulations. Would it be your feeling, if this committee sees fit to broaden these actions considerably beyond just providing for the no net cost program, in trying to see those things we think really need to be done to make our program more sound all the way around? For example, to take a look at what we need to do for recommendations or changes that might be made with regard to lease-transfer, sale of allotments and all these other things. You've heard a lot of the testimony from previous hearings. Do you think the administration would have any objections to any of the specific proposals that you've heard along that line?

Mr. **Leggett**. Mr. Whitley, of course, I would hate to comment specifically on any of the proposals; because I don't want to be dictating policy.

Mr. **Whitley**. I don't want to hold you to anything specific.

Mr. **Leggett**. As always, we would be more than happy to give you our opinion on any specific recommendations that you would request from our Department. I think we've done this a number of times in the past, and we would certainly welcome the opportunity to express our feelings as to how it would work and whether it would be beneficial on any specifics.

Mr. **Whitley**. It is your personal opinion that we are sort of on sound ground along the lines of which we are trying to proceed, in light of the testimony we've been hearing?

Mr. **Leggett**. I would certainly think so.

Chairman **Rose**. Bill Wampler.

Mr. **Wampler**. Mr. Chairman, I'll be very brief. Mr. Leggett, we have heard repeatedly through the years, including 1981, of the so-called tobacco subsidy. I think that's a misnomer, to be as charitable as I know how to describe it. If I may very briefly, I would like to read into the record from the report of recommendations of the Secretary of Agriculture for achieving a no net cost tobacco program on the historical program cost of the tobacco program. Now, these figures from the Secretary of Agriculture; and I assume that we can believe them to be accurate. Quoting briefly, it says, "since 1933, the Commodity Credit Corporation has loaned about $5 billion to associations," meaning tobacco associations. "For crop year pools already sold, $57 million in principal was not repaid. Of this loss, $35 million occurred 20 years ago when the 1955 and 1956 crops of off type seed variety of Flue-cured tobacco was sold. Unpaid interest owed Commodity Credit Corporation amounted to about $152.8 million with about $120 million of this occurring before 1965."

Now, Mr. Leggett, I've got a little figuring of my own here. So, what these figures mean, then, since 1965, the interest cost of the tobacco program has been about $32.8 million; and for about the last 20 years, the cost in the principal has been about $22 million, with the prospect that some of that may yet be recovered.

I think it's significant when the figures show the Department has loaned only $5 billion to tobacco associations since the inception of the program. Isn't it rather interesting that tobacco alone contributes more than $6 billion every year in excise taxes at all levels? And, while we are going to bring these figures down to a no net cost, I think these figures are significant, for those of us that believe in the tobacco program, to say that the cost has been minimal in relation to what tobacco contributes to the agricultural economy of this country.

So, I just appreciate the fact you put those program costs in there. I assume they're accurate. I'm going to be using them repeatedly in this discussion of what we need to do. I think if we look at the tobacco program in relation to some of the other commodity programs, we would have to conclude by these figures—at least in my part of the country—that's a pretty good trade for what we're getting. And, despite what some of the critics of the tobacco program have to say, I think the tobacco industry is going a long way toward financing the U.S. Government, rather than the other way around. Thank you very much.

Mr. **Leggett**. Mr. Wampler, I think the Department has made no secret of the fact that we consider the tobacco program extremely cost effective and it worked very well. And, certainly, if you look at it in dollars and cents, no other program comes even close to being that cost effective.

Mr. **Wampler**. Let me, if I may, just add one word of admonishment to all of you here this morning who are interested in a sound tobacco program. During consideration of the 1981 farm bill, we had other commodities under attack, especially sugar and peanuts. Now, unfortunately, in the case of sugar and peanuts, we did not have all segments of the industry of one mind. But, I'm proud to say that, in the case of tobacco, so far as I'm aware, every responsible person that was a grower, warehouseman, manufacturer, exporter, was of one mind that was needed to support the program. That wasn't true of the other two commodities, and you see they didn't fair nearly as well as tobacco did. So, I just hope that these hearings and our deliberations will enable us to continue to be generally of one mind; because if we are ever divided among ourselves, heaven help us, because we'll be falling on bad days. Thank you.

The **Chairman**. Thank you very much, Hoke.

Our next witnesses will be two fine farmers, Richard Jenks and Sherrill Jernigan.

Chairman **Rose**. Mr. Chairman, for the record, I think the witness list has mispelled Mr. Jernigan's name. It's S-H-E-R-R-I-L-L?

Mr. **Jernigan**. Two "R's."

Chairman **Rose**. S-H-E-R-R-I-L-L?

Mr. **Jernigan**. That's correct.

STATEMENT OF RICHARD JENKS, PRESIDENT, WAKE COUNTY FARM BUREAU, APEX, N.C.

Mr. **Jenks**. Gentlemen of the committee, my name is Richard Jenks, a grassroots farmer, president of the Wake County Farm Bureau. I will be as brief as possible to give other farmers a chance to comment on the proposed tobacco program changes. Wake County is the fifth largest tobacco producing county in the State. The economic significance of this commodity to our county is well known to all segments of our economy. Many other economic aspects and contributions to our State and national economy are well known and documented.

Tobacco growers have had a historical willingness to make program adjustments. However, history shows that economic power is all too often united with political power and then merges with bureaucracy to further increase financial gains of people who buy the farmers' products. Let me elaborate on issues I think need discussing.

My understanding is that Congress has mandated to farmers under the Foley-Findley amendment the no cost program to taxpayers. If this is implemented, Congress will bear the administrative cost.

I say tobacco farmers have a golden opportunity to grasp any of the problems we have today by setting up an assessment program to finance the Flue-Cured Stabilization Corp., for that corporation to be farmer owned, farmer controlled and to be self-supporting. If the mechanics can be worked out for the co-op to be farmer owned and the assessment program set up to support it, moneys to be held in a special account for 2 to 3 three years, then we would be in a position to go forward and put up our tobacco and money as collateral.

If the co-op belonged to the farmers, we would not have to go to Congress every time we needed a change. It would allow us to have direct sales of stabilization stocks at foreign and domestic prices. And, to do this, we as farmers are going to need some protection from the economic and the political powers combined again with our bureaucracy for financial gain of people who buy farmers' products.

Maybe we need to look at a more realistic way to establish a way to keep the supply in line with demand. Along with the no cost mandate from Congress, we strongly propose the following new legislation: A year's supply of tobacco be divided with the average for the last 3 years; that there would be a decrease in the quota when there is more than 2.75 years of supply in demand; also that there will be an increase in quota when the supply drops below 2.25. We would also like to see it mandatory that there be no increase in quota as long as stabilization has half a year's supply. We feel this would guard against oversupply and insure the buyers of ample supply and, most of all, eliminate burdensome stocks in stabilization.

We are opposed to any type of loss insurance fund being replaced with cigarette excise taxes. We recommend that lease of all and any allotments be authorized only for the period of January 1 to March 1 of each year. This will eliminate fall leasing, thereby discouraging any possibility of speculation and overproduction.

We recommend that the individual poundage and acreage ratio be adjusted at least every 5 years. The next issue is sale of allotments within the county. And, maybe at a later time I would like to have the opportunity to have some input as to how it could be handled. We also propose that all persons illegally selling Flue-cured tobacco be prosecuted to the limits of the law. This should include growers, warehousemen, and buyers of tobacco. We must depend upon Congress and the United States of America to see that tobacco farmers get fair treatment in the modification of the Flue-cured tobacco program.

Where else but the United States can an individual make suggestions to their superiors about program modifications?

Thank you, sir.

The CHAIRMAN. Thank you very much.

I am advised that we up here are the only ones who can't hear well.

STATEMENT OF SHERRILL JERNIGAN, FARMER, GODWIN, N.C.

Mr. JERNIGAN. Mr. Chairman and other members of this panel, before going any further, I would like to thank each member of this panel for the hard work you did in Washington last fall to retain this tobacco program. Without your sincere, dedicated efforts, we should not be here today. Again, for all farmers, I say thank you.

Stabilization at no net cost to Government is the most important issue to be discussed at these hearings. And, as my friend Richard Jenks related, I won't go into a lot of detail about it, except to say that we farmers are determined to make this a reality. Therefore, we would like an opportunity to review and adjust changes to achieve the goal. We would hope Congress would be sympathetic to our sincere efforts to accomplish this mandated change. We would hate to see an absolute deadline that we would have to achieve that might would cancel out all of our efforts and destroy all of our programs. I would like to speak also to the part of the present tobacco program. I as a young tobacco farmer cannot, with clear conscience, advocate taking allotments from the elderly, simply because they are unable to farm these allotments, especially since through their work, investment, and sacrifice, they are the architects and owners of the very program that some would like to destroy without due process of law. The following is a list of young farmers and small farmers that benefit from the present lease and transfer program. In the essence of time, I will only read two examples; but there are many more.

Al G. Honeycutt owns no farmland, owns no tobacco allotment. He farmed 14 acres of tobacco in 1981. John and Donny Hardison own no land, own no tobacco allotment. They farmed 17½ acres in 1981. There are many, many others in similar situations throughout the Flue-cured producing area. Without lease and transfer, it would be near impossible for these families to survive. These people didn't get rich, but they provided for their families without standing in unemployment lines or welfare lines. These above families can use the lease-and-transfer program to earn a living with limited capital which would not permit them to buy land and allotments. As painful as it is for me to say, the fact remains that some of the families listed above would be hard pressed to make a living in any other way, due to the lack of education or ability to enter the mainstream of public employment.

With regard to the sale of allotments, I would support the sale of nonagricultural corporation allotments. I am opposed to the sale of individual allotments, because I feel this is just a foot in the door that would eventually destroy the program. The argument that some use, claim that the sale of allotments would give the young farmers opportunity to buy allotments and become producers, I disagree with; because the small farmers previously mentioned had insufficient land or no land and, in many instances, no capital and, therefore, would be unable to purchase the allotments. Also, the present program requirements would prohibit their owning allotments.

I feel that, based on the present lease price of allotments, that a fair market value would be more than the young farmer could afford to pay, even if he had the necessary land and capital. Here are some figures coming from the lending institutions that I deal with. Based on $3 a pound purchase price, 2,000 pounds of allotment, plus closing cost would amount to $6,130. Repayment of principal and interest over a period of 7 years would be more than $10,000. People from these same institutions tell me they would be very reluctant to loan money to purchase allotments, unless we were assured of a tobacco program for at least 10 years beyond purchase date of the allotment. In my opinion, the sale of allotments would result in the big getting bigger and the small getting smaller. The greatest complaint with the present program is coming from large operators; and young instant farmers. Often these farmers, some growing more than 150 acres, are operating with FHA and PCA money without any restrictions as to bidding against other farmers to increase their operations and, in some instances, loan approval practices which actually encourage rent escalation. This has been especially true in the case of the FHA.

We farmers realize that our children cannot become instant farmers any more than employees of General Motors could expect their children to become instant employees of General Motors.

Again, gentlemen, I thank you for allowing me to present my thoughts to this panel.

Stabilization at no net cost to Government is the most important issue to be discussed at these hearings.

We farmers are determined to make this a reality, but we realize our first attempt may not prove fully successfully. Therefore, we would like an opportunity to review and adjust these changes to achieve this goal. We would hope Congress would be sympathetic to our sincere efforts to accomplish this mandated change. We would hate to see an absolute deadline which may cancel out all of our efforts and destroy our program. I see hidden within these discussions an insidious self-seeking group willing to loot our business in this time of strife. Look after us, I beg you. I feel that if allowed, we farmers can balance our budget in stabilization sooner than all the Government experts can balance the United States budget.

The CHAIRMAN. Now, we are getting down to the nitty-gritty and both of you have identified the delicate nature of the problem that we've got to resolve. I for one—and I know I speak for my colleagues—appreciate your coming here. Senator Huddleston?

Senator HUDDLESTON. Thank you very much. Mr. Chairman, I think Mr. Jenks has offered a very interesting proposition on developing a totally producer-owned and operated program. Charlie Rose is looking into that prospect. This may form the very basis for doing that and for phasing into it—no cost provisions, setting up the reserve and that sort of thing—and may very well lead to the possibility of doing that. Would you think, though—you're still going to have to be able to exercise production control. The system won't work without that. I think we all recognize that.

Mr. JENKS. I would be the first to say we need you to police our allotments.

Senator **Huddleston**. That would still have to be done at the Federal level.

Mr. **Jenks**. The Federal level. That's correct.

Senator **Huddleston**. I think—my friends in the wheat business say, "Why can't we get a program for wheat like you have in tobacco?" I say, "If you're willing to take the production controls that the tobacco producers accept, then you would have a program just as good as tobacco." But, nobody wants to do that.

Mr. **Jenks**. This is something that has often bothered me, you know, how come they don't want it. We've got a program that's working for us.

Another thing I'd like to throw at the committee at this time is, why are we as a commodity being picked out and none of the other commodities are being picked out, you know, being attacked?

Senator **Huddleston**. That's a paradox. There's no question about that. But, as Robert Frost started one of his famous poems with "Something there is that don't like a fence." to paraphrase that, "something there is that don't like tobacco." And, we just have to accept the fact that there's so many detractors, it makes it necessary to eliminate to the fullest extent we can the ammunition that they use against us. That's just a fact of life. That's what we wrestle with every day.

Mr. **Jenks**. I think farmers have accepted that and they are more than glad to. I think, if you'd just ask for a show of hands from farmers today, I think they'd be more than glad to say they want their own stabilization. They want to run it; they want to call the shots. We want to furnish the money.

Senator **Huddleston**. I think that's an interesting prospect that we can look at as we go down the road.

Mr. Jernigan, on the least thing—and this is one of the difficult, delicate things; and I think all of us recognize that no matter what we do about the future, to correct the situation—and this is one of the areas we get attacked in Congress on—and that is, you've got a situation that's almost feudal. You deny some people. You protect people for generations. People who are not farming and don't even own farm property are benefiting. Somehow that is just not right.

Do you think that we could develop an equitable system—and you bring up a very legitimate question about the idea of being able to just unrestrictively sell leases. I think someone has already pointed out that, if that occurred and you had a small group of peope, that eventually, through time, would own virtually all of the allotments, you would vastly decrease the political base that tobacco has now. I think our manufacturers realize that the thing that keeps this program alive is the fact it is spread among so many farmers and that is a political base that supports the entire program.

I was wondering if we could—once we determine the rules for how allotments are to be held, whether there is a requirement that it be grown on specific land 1 out of 3 years or that whoever owns the allotment must also be a farmer or be in the farming business or have a farm or whatever we determine those rules ought to be—then we apply it to those who own allotments now; and there will be many who wouldn't qualify. So, would it be a practical thing to say that we will have a one-time sale or just those allotments that are outside the qualifications? Maybe it will be done on a bid basis or however; but make sure that those people who own allotments—because they've come through the system and they do have, I think, a valuable property right; be compensated if they're not going to fit into the new program. Would a one-time auction or something of that nature meet that problem? What do you think?

Mr. JERNIGAN. It would certainly go a long way toward correcting it; but, still, my contention is that many of the young farmers that I'm relating to here——

Senator HUDDLESTON. Your concern is the people who really ought to be getting the allotments will be unable to compete.

Mr. JERNIGAN. They will not be able to afford these allomtents if they were put out to bid on the open market. These people that I've related to, don't even have the land to attach those alloments to.

Senator HUDDLESTON. Do you feel they ought to be entitled to some kind of compensation if they have to give up their allotments?

Mr. JERNIGAN. If we were to mandate that people followed within certain criteria, yes, sir, they should be compensated.

Senator HUDDLESTON. And, how should that come about?

Mr. JERNIGAN. That's a tough question.

Senator HUDDLESTON. I'm just afraid that somebody will say, "Well, the Government ought to pay them off for it."

Mr. JERNIGAN. I really don't think the Government should enter into this. If it comes to this, it should be on a bid basis or a person-to-person basis.

Senator HUDDLESTON. What if you have a bid basis and restrict the number of allotments that any individual might buy or if somebody already has an allotment, you might eliminate them altogether and make it a one-time auction just for those who don't have allotments.

Mr. JERNIGAN. That would be one approach.

Senator HUDDLESTON. Thank you. I'm just looking for some kind of way to deal with that very difficult question.

The CHAIRMAN. Let's get back just a minute to the Commodity Credit Corporation, the loans. I would just like for each of you to give me your reaction. The question is so often asked of me, "Should farmers finance price support loans themselves or should they continue to draw upon the Federal Commodity Credit Corporation to make the loans?"

Mr. JENKS. I think the farmers should own it and I think they should finance the money. As long as we allow a situation to be continued to be set up as it is, to go through Congress and then through the budget and then to the CCC to borrow that money, someone else is going to be calling the shots. We want to call the shots, and we want to furnish the money.

Mr. JERNIGAN. I would agree with that, and it might take a period of transition to get us into a position that we could do this. But, I think that would be the ultimate way to go.

Chairman ROSE. I want to thank both of you for your testimony. It has been very helpful. I don't have any questions. I think there's been a lot of good things brought out by what you've said. And, Sherrill, I'm happy to have you here from my district.

The CHAIRMAN. I'm glad to have you here from my district. Both of you are from my district.

All right, with the committee's approval, Mr. Bell, Harry Bell, with the South Carolina Farm Bureau has a plane to catch. He's going back with Bryan Patrick; and without objection, we will call Mr. Bell out of order. We welcome you, sir.

STATEMENT OF HARRY S. BELL, PRESIDENT, SOUTH CAROLINA FARM BUREAU FEDERATION, ACCOMPANIED BY ED PHILLIPS AND JOE STANCIL

Mr. Bell. Thank you, gentlemen. We certainly appreciate the special consideration you have given us. I am accompanied today by Ed Phillips who is chairman of the South Carolina Farm Bureau tobacco committee and Joe Stancil of the South Carolina Farm Bureau staff.

I am Harry S. Bell, president of the South Carolina Farm Bureau Federation, the largest voluntary general farm organization in our State, with a membership of more than 80,000 families. The majority of these members are farmers and a significant number of these farmer members are tobacco farmers. Our policies are adopted in a democratic manner by voting delegates from every county, representing a cross section of all commodities, thereby seeking the welfare of the total agriculture section in a cooperative and united effort.

It is on behalf of all farmer members of the South Carolina Farm Bureau that I appear before you today.

Flue-cured tobacco is vital to the agricultural sector of South Carolina and, in fact, to the overall economy of our State. It is one of the two top income-producing crops for South Carolina; and needless to say, we are very concerned with efforts now being exerted from some quarters that would destroy the current tobacco program.

As you know, the overall purpose of the present program is to stabilize prices by restricting supply. To accomplish this, the program functions in an interlocking and interdependent way through the central features: A national marketing quota, individual farm quotas based on production history, price supports and farmer co-op loan programs. Other miscellaneous features are also important for the program to function properly.

Our members realize that the current program encompasses many features, some of greater economic consequences than others, and some more politically vulnerable than others. We can see the need to fine-tune the program in some areas, but are convinced that to abolish the program would spell disaster for a large segment of our agricultural community. With this brief introduction and background, I offer for the record the following policies as adopted by our voting delegates on December 5, 1981:

No. 1, price support loan rate: We recommend that the pricing formula be set at 65 percent of normal increase for a 3-year period. In other words, when excessive stocks of certain grades accumulate in stabilization—based on type—the Secretary of Agriculture, with the advice of a producer advisory committee, shall have the authority to adjust the price support loan rate at 65 percent of normal increase for a 3-year period to help assure that a no net cost to the Government program is achieved and maintained.

No. 2, direct sales: we request the USDA to permit the various farmer-owned tobacco loan associations to sell tobacco to any domestic and foreign customer after tobacco has remained in the loan association for 2 years.

Third, grower assessment for future losses: We support a grower-controlled assessment, subject to an appropriate limit. And, I might add, sir, that the voting delegates at our convention and tobacco producers feel that limit should be one-half cent. This should be used to underwrite possible future losses on sale of tobacco taken under loan. We did this to show Congress that we intend to operate our tobacco program at no cost to the taxpayers. This would take effect after a two-thirds favorable vote in a producer referendum.

Fourth, association reserve: We favor the retention by the producer loan associations of a reasonable reserve from earnings on future sales to help offset possible future losses.

Fifth, nesting: We recommend that a committee be found to study the problem of nested tobacco. We further recommend that stiffer penalties be imposed on any and all growers negligent of nested tobacco. We cannot allow the integrity of U.S. tobacco to be seriously eroded or threatened because of this practice and some suggested corrective actions have been offered as follows:

(A) Authorize and empower the tobacco grading service, to inspect all tobacco on the warehouse floor for nesting, and

(B) Withhold price supports from all piles or quantities of tobacco found to be in a nested condition.

Sixth, leasing: We urge strict enforcement of the laws which dictate farmer-to-farmer leasing of tobacco allotments and eliminating the middleman, the speculator, and the warehouseman in the process.

Seven, 80 percent provision: We recommend that tobacco quotas be on an acreage-poundage basis and that growers be allowed to plant 110 percent of acreage only if the bottom four leaves are not harvested. We recommend that a producer must plant 80 percent of his allotment to qualify for fall lease and transfer. However, since many farmers now produce the allotted poundage on fewer acres than several years ago, due to better production practices and technology, we suggest that farm poundage and acreage—for Flue-cured—be adjusted at time intervals, such as every 5 years. This would reduce the present tendency of overproduction in many instances.

Mr. Chairman, we feel that these recommendations, if effected, would do much to help adjust and fine tune the present tobacco program and keep it intact. We cannot afford to lose it. Displaced tobacco farmers in our State could not make a transition to soybeans, corn, wheat, or some other grain. All of these crops require large acreage units for a profit. To switch to these crops, our tobacco farmers would face insurmountable hurdles. Many of them have large investments in modern curing and harvesting equipment, some lack the practical skills needed for growing unfamiliar crops. And, the biggest constraint is a lack of a guaranteed market. To lose the present tobacco program would spell disaster for the tobacco producing area of South Carolina. I urge you to consider the recommendations presented here, and we certainly thank you for the opportunity of appearing today.

The CHAIRMAN. Mr. Bell, I thank you for an excellent statement. I am so glad that you emphasized the imperative need for integrity in this program. I think Senator Huddleston, Charlie Rose, Mr. Whitley and Mr. Wampler would agree that we don't need any discussion of nesting on the floors of the Senate and the House. We have got to work together on that part of it and other irregularities. I appreciate you helping us out on that. Do you agree that all nonquota tobacco produced and marketed in the Flue-cured counties must be counted against Flue-cured quotas?

Mr. Bell. Yes, sir.

Senator Huddleston. Two quick questions. You say authorize and empower the tobacco grading service to inspect all tobacco on the warehouse floor for nesting. What about putting that responsibility on the warehouse and penalize the warehouse with a decrease in selling time if an unusually large proportion of their tobacco is nested?

Mr. Bell. Senator, of course, our voting delegates, our tobacco committee, spoke to it as I stated. However, the problem is there and it needs to be addressed; and if it can be addressed in another fashion equitably, I don't think there would be any problem.

Senator Huddleston. Do you have any strong feelings about letting stabilization use grower assessed funds directly by putting them to work in the loan program?

Mr. Bell. Our tobacco producers feel that that money should be left segregated, sir, and be held in a fund to be used in case of a loss and not invested in tobacco.

Senator Huddleston. Well, the problem with that is the money can't be invested without special permission from the IRS to deal with it. And, I'm not aware of any real overriding reason why it should be left in the special fund. Are you?

Mr. Bell. It was discussed, and our producers felt it should be held in a secregated fund to be used if there was a loss.

Senator Huddleston. That may be one issue we need to attempt to do a little educating or discussion on. We don't need the kind of trouble that money sitting in a non-interest-bearing account would bring. Thank you very much.

The Chairman. Thank you very much, gentlemen, and have a nice flight home. We will take one more witness before lunch and then I am going to do a radio commercial for Jim Graham's emporium in the back. Over on this side, barbecue plates will be on sale; and over on this side, a concession area is also available for those not wanting a full meal—hot dogs and the rest of it. After Fred Bond appears, we will recess until promptly at 1:30.

Mr. Bond. Mr. Chairman, Billy Hill, president of the cooperative will present the statement for the board. Mr. Hill.

The Chairman. I know that, necessarily, there must be a certain amount of moving around; but if you will be as quiet as possible, it will afford us an opportunity to hear. Thank you, and you may proceed.

STATEMENT OF BILLY W. HILL, PRESIDENT, FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORP., ACCOMPANIED BY FRED BOND, GENERAL MANAGER AND SECRETARY-TREASURER

Mr. Hill. Mr. Chairman, thank you for the opportunity to present this statement on behalf of the board of directors of the Flue-cured Tobacco Stabilization Corp. I am Billy W. Hill of Jasper, Fla., president of the stabilization. Stabilization's board of directors is composed of 10 grower members elected by growers from their respective districts from the five Flue-cured producing States and a public director appointed by the Governor of North Carolina, who is also a tobacco grower.

Our directors are here today, and I would like to recognize them: Frank Strickland from Lakeland, Ga.; W. F. Davis from Aynor, S.C.; James Pate from Roland, N.C.; Hoover Surles, Roseboro, N.C.; W. L. Williamson from Kenly, N.C.; Atlas Wooten from Greenville, N.C.—Marsh Currin is from Oxford, N.C. He's not with us today—Frank Bryant from Booneville, N.C.; and Roy Davis from South Boston, Va. Mr. Chairman, these gentlemen are the elected group of directors. Mrs. Isabelle Fletcher of Kinston, N.C., is our public director. Also present today is Mr. Fred Bond, who is the general manager and secretary-treasurer of our cooperative.

Stabilization, with headquarters in Raleigh, is the grower-owned cooperative which administers the program for Flue-cured tobacco under contractual arrangement with the U.S. Department of Agriculture, Commodity Credit Corporation. Practically all individuals who share in the proceeds from the production and marketing of Flue-cured tobacco, whether landlord, tenant or curer-grower, are members of the cooperative. Under the contractual agreement with CCC, stabilization makes loans to eligible Flue-cured growers whose tobacco does not bring a minimum price established for each grade at the auction market. Funds to advance loans to growers are borrowed from CCC.

All growers' tobacco consigned to stabilization on loan, subsequent to the auction, is transported to preassigned processing facilities for reweighing, regrading, redrying and packing into containers for shipment to storage. At the conclusion of each marketing season, selling prices are established for each grade. Price schedules, conditions of sales and grade inventories are made available to all U.S. buyers of tobacco. As sales are consummated, all proceeds are immediately applied for repayment of funds borrowed from CCC. This process continues until all tobacco from any crop is sold, which may require up to 7 years to close out a pool. At the time a crop pool is closed, any proceeds or net gain remaining after repaying principal and interest to CCC are distributed to participating growers, less any amount retained as reserves.

Stabilization has handled 36 crop pools since its inception in 1946. A total of 29 crop pools have been closed out. Twenty-two pools have been closed with not gains totaling $68 million after repayment of all obligations to CCC. Seven crop pools have been closed with principal losses to CCC of $42.8 million. Over 83 percent of this loss was charged to two crops, the 1955 and 1956 crops, which were subsequently discounted in value by USDA, due to a higher percentage of those crops being planted in varieties designated as lacking in flavor and aroma.

Each crop pool inventory is priced initially at levels to recover all funds borrowed from CCC, plus a reasonable markup. Several factors affect the profit, the breakeven or loss on any crop. They include: The length of time a crop remains in inventory—the longer duration, the more likelihood of loss due to increased cost; the quality level of one crop as related to the quality level of all the other crops in inventory; the volume of tobacco consigned in stabilization by growers; and a lack of inventory balance among the various grade groups.

During the past 33 years, stabilization has received and processed over 5 billion pounds of tobacco for growers. Accumulated sales now total 4½ million pounds, leaving on hand the current inventory of 480 million pounds of tobacco from seven crop pools, 1975 through 1981 inclusive.

The principal owed Commodity Credit Corporation on this inventory amounts to $785 million, plus accrued interest of $259 million, for a total indebtedness to CCC of slightly over $1 billion. The valve of this inventory, based on current prices, is in excess of $1 million. Coupled with marketing quotas, the other vital part of the tobacco program, the price support operation which I have briefly described, provides for stability in markets each year and a reasonable expectation of fair prices throughout the entire marketing season.

The need for the tobacco program is just as essential and necessary now and in the future as in the past. In order to continue a program, changes must be made as directed by the Congress. In accordance with the congressional action in October of 1981, the Secretary of Agriculture was directed to recommend changes that would result in a no cost tobacco program to the Federal Government, with the exception of such administrative expense as is incidental to the implementation of any commodity program. The stabilization board of directors recommends the following action be considered to achieve the implementation of a no cost program for Flue-cured tobacco:

No. 1, that the concept of the grower assement be established over a period of time, in order to insure the operation of the Flue-cured tobacco price support program on a no loss basis to CCC, with the responsibility of determining the amount of the assessment resting with the board of directors of the cooperative, subject to the approval of the Secretary of Agriculture. It is the opinion of the board that any assessments for Flue-cured be kept separate from any other assessment program for other types of tobacco.

No. 2, that action be taken in regard to the rapid spiraling in the price formula for Flue-cured tobacco and recommends that rate of escalation be reduced in a reasonable and acceptable manner.

In addition, the board agrees to commit any net gains on present and future crop pools to be used to avoid possible future losses.

Mr. Chairman, again I thank you for the opportunity to present this statement on behalf of our board.

The CHAIRMAN. Mr. Hill, we thank you and all of your associates and, of course, our friend Fred Bond. I would mention that Fred is so helpful to all of us. Charlie Rose and I were just talking about the number of times we have consulted this gentleman. I think the relationship is fine.

Senator Huddleston?

Senator HUDDLESTON. Do you see any inequity in the matter of taking the gains from one crop which is, of course, owned by one set of producers and using it to offset a loss from another crop that is owned by another set of producers, perhaps?

Mr. HILL. Senator, I personally do not; and I think that most of our growers do not. I believe that the general concept is that, over the years, that the price support program is—whether or not a specific grower participates during a particular year, that he is benefited greatly from the total program.

Senator HUDDLESTON. I thank you, sir. That's my conception of it. Do you think that there is any specific figure or that the association ought to be able to set the amount, or the percentage, that's going to be assessed to build up this reserve? Is there any logic in determining a percentage or an amount that this reserve ought to be maintained at, so that once you reach a certain level, then you can adjust downward or take whatever action might be appropriate at the time? I'm thinking in terms of, for instance, financial institutions which are required to keep a certain reserve of funds that are readily available and that can be used if needed. Once they reach that level, then they can use their funds for whatever purpose they want. Is that a reasonable approach?

Mr. HILL. Yes, sir. I think without any question. Of course, it would depend on the concept, what concept we continue to operate under. I think without any question, if we were just looking specifically to CCC losses as under the present program, you could come up without any problem with a dollar-and-cents figure.

Senator HUDDLESTON. So, based on history or based on the amount that you take in every year or something of that nature, an appropriate and reasonable level could be established.

Mr. HILL. Yes, sir.

The CHAIRMAN. Thank you, Senator. Let me ask you this, Mr. President or Mr. Bond or anybody else who cares to respond. How long can stabilization hold tobacco before it begins to cease to increase in value?

Mr. BOND. Senator, that time is becoming shorter and shorter with high interest rates.

The CHAIRMAN. Just a minute. The Chair regrets to be a bore about this, but we can scarcely hear. We are going to be through in just 1 minute, and you can have lunch. So, if we could have your indulgence——

Mr. BOND. The time you can carry tobacco successfully and profitably depends upon, of course, No. 1, interest rates; No. 2, supply of that grade of tobacco; the size of the inventory. You are really talking about revolving the inventory as fast as you possibly can today. After 2½ to 3 years, the interest rates will push the price beyond what you can expect to recover; and, therefore, you have to reduce them. So, time is very important. The shorter duration, the quicker you can revolve, the better off you'll be.

The CHAIRMAN. You're at the danger point at 3 years then?

Mr. BOND. Yes, sir. Yes.

Chairman ROSE. It's an awesome feeling to see the whole board of stablization sitting there, and I want you to know how impressed I am to see you all at one place at one time. I have the greatest respect for what you ladies and gentlemen do. You are the people that have made the tobacco program work for us in the Flue-cured area, and I want you to know that anything I can do as chairman of the tobacco subcommittee to make your life easier, don't be bashful about coming to me and other members on my subcommittee to ask for it. We respect you. We look up to you. We're proud of you. We want to be your partners in this thing. And, you're not dealing with a bunch of young kids who are going off half-cocked on how we want to change the program. We want your input. There is only one suggestion that I want you to think about in your process. Consider—and maybe sometime we can get together and you can give me your reactions to it. Consider whether or not the best and highest use of your profits and your assessment checkoff funds might be to invest that money in the crop itself, as you could loan it out to the farmers. I can envision a day may be coming when you folks would be totally self-sufficient and wouldn't need Commodity Credit funds anymore, but would maintain better adequate records or whose money you were dealing with. So, if we ever get lucky, as Mr. Huddleton's burley farmers are, you can start paying back some of that money. But, that is your decision. I want to help you in any way I can—I thank you for all that you're doing for all of us. Thank you.

Mr. WHITLEY. I agree with my colleague from Virginia. When this august group marched up and took their seats, Mr. Chairman, it looked like a hanging jury; but I don't believe it really is.

Obviously, all of us are in the same boat and heading in the same direction and working towards the same goal. I have just a couple of quick comments. Pursuing what the Senator said a moment ago, Fred, last year's receipts for the 1981 Flue-cured crop came into stabilization at what interest rate?

Mr. BOND. To begin with initially, it was 14½ percent; and as of the last day of January of 1982, we have been able to get the rate reduced, simply because the cost of money has come down. That is now 12¼ percent.

Mr. WHITLEY. But, under executive order, actually for the first time beginning last year, stabilization is going to back Commodity Credit with interest figured at cost of money to the Government. Is that correct?

Mr. BOND. Yes, sir.

Mr. WHITLEY. That has not pertained to past years, has it?

Mr. BOND. In part, Congressman. For example, the 1980 crop, as I recall, was about 11½ percent. Now, there were some years—back in 1975, 1976, 1977, when those loans were authorized, it was at the cost of money; and that rate continues for the life of the loan or has been continuing until this recent directive by CCC. So, rates—we're now on a variable rate.

Mr. WHITLEY. Let me just pursue the point that I wanted to underscore and that is, as you said, with your holding back on a loan that is going up at the rate of 14 percent per year, you can't afford to hold that tobacco very long in stabilization stocks before it has to be sold, in order for you to realize your investment on it.

Mr. BOND. You're exactly right.

Mr. WHITLEY. In the past, with a lower investment rate, whether it was costing money to the Government or for whatever reason it was lower, you could hold those surpluses longer and still get your money back; because the interest rate was lower.

Mr. BOND. That's correct; yes, sir.

Mr. WHITLEY. So, this change in the interest rate makes it vitally important that we try to hold down stabilization receipts to a minimum.

Mr. BOND. Yes, sir, to a reasonable level; yes, sir.

Mr. WHITLEY. One final question and any member of the board might want to address it. We had one of our growers this morning in very fine testimony say that they would like to see an opportunity for stabilization to become totally farmer-owned and farmer-operated and farmer-directed. I think most of us feel like, to the extent possible, we have it that way now. Of course, he's talking about somewhere down the road building a sufficiently large cash reserve through a checkoff system, so that we wouldn't have to depend on Commodity Credit for our loans. How feasible is that? How far down the road would you be looking, Fred?

Mr. BOND. Congressman, that particular point has been under discussion by the board since 1980; and, in fact, the board has developed what we would call an alternative plan if, in fact, funds from CCC were withdrawn completely. I won't bother to go into details of that proposal or that alternative, but it is possible and it is feasible; yes, sir.

Mr. WHITLEY. That's very comforting to know. Thank you.

Mr. WAMPLER. I want to commend the witness this morning, Mr. Hill, for his statement and thank the board for its presence here. We are particularly proud in Virginia of the fact that Roy Davis is a member of the board. He's not a constituent of mine. I wish he were. He does an excellent job, and I know of no one in Virginia who has a better overall grasp of all the technicalities of the tobacco program than does Roy.

I particularly appreciate, Mr. Hill, you said that if, indeed, the concept of a growers' assessment is to be established, that we have a reasonable period of time in which to put it in place. And, it may well be that along the line of questioning of Mr. Whitley that we may have to find alternate means of financing, other than CCC. I'm sure you've studied the possibility of going to the banks or cooperatives and other public or private sources for financing. I just want you to understand that we are going to look to you and to other associations to help us and to help the Department, as we move into this new phase of the tobacco price support program. It really ought to be your program, and I feel very strongly that we indeed are going to assess the growers to carry out this program. Then, the heavy hand of the Federal Government is going to be held to a minimum. It's going to be your program; you ought to operate it. So, we will look to you in the future and appreciate your presence here today.

The CHAIRMAN. Thank you, gentlemen and lady.

Mr. BOND. Senator, before we step down, let us all express to you and all of your colleagues and Congressman Rose how much we appreciate the fight that you put forth last October. You have been very helpful to us in information, too. So, we thank you very much.

The CHAIRMAN. Thank you, Fred.

Before we recess until 1:30, the Chair would ask everyone to put his or her name and address on the white card you were handed when you came in. We want to be able to furnish information to you, as it becomes available. If you want a copy of the summary of today's proceedings, it's essential that you furnish us your name and address; and we will do that. The Chair will appreciate it. There is a box somewhere for it to be dropped in. Then, after lunch, we will have that information. Thank you very much.

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order. We ask our friends to take their seats.

Our next witness will be the distinguished president of the North Carolina Farm Bureau, John Sledge. While he is coming forward, let me emphasize again that it is the intent of the Chair to remain here until everyone has been heard. As much as I appreciate the testimony of the majority of the witnesses this morning, I want to hear from the people who do the work and grow the tobacco. It's easy for those of us in public office to make judgments in the abstract, but you can't deal with the abstract. You've got to deal with all the conditions that sometimes converge into one big problem. I again want to express my appreciation to all of you for your patience and for the fact that you're here. If you don't want to say anything this afternoon and if you have a statement to be printed in the record, fine. If you want to submit a statement after you go home, mail it to me, but we've got to have the greatest amount of input, it seems to me, from the people who are on the firing line, growing the tobacco and trying to survive in these most difficult times.

I welcome my distinguished colleague, Senator East. Senator Huddleston is on his way to Kentucky, where he had a commitment for this evening. He asked me to express to you his gratitude for your hospitality to him. He is an excellent Senator, and no committee chairman has ever had a finer ranking member than I have in Walter Huddleston.

Senator East, earlier today I was telling these folks how you took the assignment of doing your missionary work among the new Senators who came to Washington a year ago in January, most of whom didn't know a thing in the world about the tobacco program except what they read in the paper and that was ninety-nine point forty-four percent incorrect. I want to say to you personally what I have said so many times to others, that I shall always be grateful for the way you pitched in and helped save this program. Do you have any comments you want to make, Senator?

STATEMENT OF HON. JOHN P. EAST, A U.S. SENATOR FROM NORTH CAROLINA

Senator EAST. I appreciate that. I will be mercifully brief here. I first of all would like to thank Senator Helms and Congressman Rose for the opportunity to appear. I am not a member of the Senate Agriculture Committee. However, by my presence here, I do want to let you know what great importance I attach to this issue.

First, I would like to congratulate Senator Helms and Congressman Rose and the other members of this distinguished panel for the great leadership they have given on this issue in Washington. I know you're anxious to get down to particulars. After having had the opportunity to be there this past year, I would like to underscore that this was a year of great challenge and that it took extraordinary, capable leadership to keep things on the right track. Having been there, I can speak from experience and tell you that these gentlemen did it.

Being in the Senate, I was able to witness the leadership of Senator Helms and Senator Huddleston. I would remind you that this year we had a farm bill, the 1981 farm bill, in which we were working under severe budgetary restraints that make life, frankly, much more difficult. Even in view of those budgetary restraints, I would like to point out that the tobacco program came through the U.S. Senate unscathed, which was a remarkable achievement in and of itself. Again, this was due to the very effective bipartisan-nonpartisan leadership of Senator Helms and Senator Huddleston.

We have managed to get some time to reflect now and make the needed changes to make this program a solid program, a viable program, efficient, effective and one that is in the best interest of the tobacco producers and all involved in this vitally important business. The problem we faced last year in the Congress was that the enemies wanted to dictate the changes. And, whenever your enemies come up with a reform program, you'd better sit up and take notice; because, usually, if you strip it down to the core, you will find they really want to do you in. That was avoided because of the very expert leadership you see to my right here on this panel. Again, I want to repeat, it gives us the opportunity now to reflect from friends of the tobacco program and the tobacco industry. We need to enter into discussion and dialog to get specific recommendations and build from that a consensus on what ought to be done.

If that can be done and we can return to Washington with a united front as to what changes ought to be made, then that becomes salable in the Congress. I can tell you as a freshman who has been there for a year—the thing that hurts the most up there, in trying to accomplish anything regarding the tobacco program, is when your enemies in Washington are able to say there are strong and deep divisions, not only within the whole industry, but among the growers and the producers; because they play us off against each other. That undercuts us. I don't mean to waste time stating the obvious, but I cannot underscore enough that I think it's imperative that out of these discussions and these hearings there is a consensus as to what ought to be done. Then we can go back with a united, nonpartisan, bipartisan front to do what we all know needs to be done.

I end on this thought, Senator Helms, lest I overextend the courtesy invitation you've given me here. By my presence here, since I am not a member of this distinguished panel, I would underscore the personal importance that I attach to this. I do not know of any issue that is more important to the economic well-being of the State of North Carolina than the tobacco program. It is not something just unique to eastern North Carolina where it has enormous impact in terms of tobacco producing and growing; but it affects the entire economy of this State, including the Piedmont and the west. Everybody ought to know that. To the extent that this program is sound, effective, viable, workable and creates a sound economy in the eastern part of the State, the whole State benefits from it. So, by my presence here, I want you to know I attach the highest, top priority to it. I am willing to supplement these distinguished gentlemen in every way that I can to see that we accomplish what needs to be done. I am willing to put in that kind of time, and I can assure you my office and my staff are willing to do that.

Again, I thank you for letting me be here today and to share in this; and you can count on me to be working in every way I can with this sterling leadership to go in the right direction. Thank you, Senator Helms.

The CHAIRMAN. Thank you, Senator.

Let me say that the relationship between John Sledge and the North Carolina Farm Bureau and what you might call official Washington couldn't be better. John knows so many people there, has a working relationship with them; and he has certainly been, with his associates, a great asset to me. Mr. President, we welcome you; and if you will identify your colleagues there and proceed, we will be happy to hear from you.

STATEMENT OF JOHN SLEDGE, PRESIDENT, NORTH CAROLINA FARM BUREAU FEDERATION; ACCOMPANIED BY BOB NASH, BILL LITTLE, AND GENE LANIER

Mr. SLEDGE. Thank you very much, Mr. Chairman and members of the panel.[1] I am pleased this afternoon to be joined by my counterpart, the president of the Georgia Farm Bureau, Bob Nash on my right. The gentleman on my left is our commodity director, Bill Little; and the next gentleman is Gene Lanier, a tobacco farmer from Pender County. He is one that we rely very heavily on through our tobacco advisory committee in our organization, and he is also the chairman of the Flue-cured marketing committee. So, we are pleased to have these gentlemen join us at this time.

The CHAIRMAN. So are we.

Mr. SLEDGE. Senator East just alluded to the economic importance of tobacco in North Carolina, and I'd just like to quote a figure or two, that Flue-cured tobacco is grown in at least 70 counties in North Carolina and there's 29 counties in which Burley tobacco is grown. So, we've got some 360,000 or more acres of tobacco produced in North Carolina. And, through our organization, we attempt to represent the feeling of our membership who produce this commodity.

I want to point out for the record, if I may, that the tobacco growers have a history of making program adjustments all during the history of the program. During the more than four decades in which the tobacco program has operated, growers have always demonstrated a willingness to make those adjustments that would strengthen and provide the necessary safeguards. While keeping the program updated, the underlying objectives have also been to maintain fair farm income.

I'd like just for the record to list just four or five of those things. Recalling back to the year 1959, the method for determining price supports was modified to base the level of support on the level established for the future buying of crop and was adjusted annually thereafter as the basis of the 3-year moving average of the parity index, which is the procedure currently employed for determining price supports.

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[1] See p. 107 for the prepared statement of Mr. Sledge.

No. 2, in 1957, a variety discount program was implemented to encourage quality production to meet buyer demands. No. 3, in 1961 and 1962, the lease-transfer program was developed to permit existing allotment holders to lease allotments within the county. No. 4, in 1965, the acreage poundage replaced the individual farm acreage allotments, with acreage and poundage quoted for each farm. This provided a better means for balancing supply and demand and maintaining high quality. No. 5, in 1977, a change was made in the grade standards, including tightening the waste tolerance procedures. No. 6, in 1978, in response to a surge of imports, the voluntary four-leaf program was adopted to encourage growers not to harvest the four lower leaves on each stalk, as a means of reducing the quantity of lower leaves. And, No. 7, a further response to this import surge occurred in 1980, when price supports were terminated on eight down-stalk grades to prevent a buildup of loan stocks. So, we do have a history of making the necessary adjustments as they come along.

So, it would appear then that, from the very beginning of the tobacco program, that the growers have wanted the program operated in a manner that would result in a no net cost to taxpayers, other than such administrative expenses as is incidental to the implementation of any commodity program.

Now, we want to make some recommended changes in the current tobacco program that should result in no net cost to taxpayers and provide for an orderly and equitable transition of allotments and quotas with the control of vo-ag leaders.

The North Carolina Farm Bureau Federation held numerous tobacco hearings over the State during 1981 in order that our growers have an opportunity to express themselves on any program changes. In addition to our meetings, our farm bureau tobacco leaders have met many times with the farm bureau of Flue-cured and burley tobacco States. The most recent meeting with other farm bureau States was on January 25, 1982, in Columbia, S.C. We have been striving for tobacco States' unity and a united front for tobacco program changes or modifications.

The past has mandated that these operating principles must continue in the future. The North Carolina Farm Bureau Federation voting delegates at our last annual meeting in Raleigh in December 1981 addressed many of the tobacco issues. And, Mr. Chairman, you and Congressman Rose remember that you addressed our convention. We were very honored to have you, and you spoke very strongly on some of the things, the directions, perhaps, we ought to be going. And, I think some of our policies perhaps were based on some of the things that they heard you address there during that convention.

Today, I would like to report a few of these recommendations that relate to what we consider to be constructive changes in the current program. No. 1, when excessive stocks in certain grades accumulate in the cooperative association, based on type, the Secretary, with the advice of a producer advisory committee, shall have authority to adjust the price support loan at 65 percent the normal increase for a 3-year period, to help insure that a no net cost to the program is achieved and maintained. This proposed change would provide incentive to produce those grades in greater demand, afford some price protection or insurance to growers who produce under abnormal circumstances, and help insure the cooperative association against future losses.

We would also hope that any decreases in grade loan levels would encourage the increase of domestic utilization, while discouraging the escalation of tobacco imports into this country.

No. 2, we support a grower-controlled assessment by kinds, subject to appropriate limits, to underwrite the possible future losses upon sale of tobacco received under loan. We feel this approach to tobacco is somewhat precedent setting and demonstrates an attitude by growers to move in the direction of making the tobacco program self-supporting. This grower assessment program that we envision would insure the taxpayers of our Nation that we are prepared to immediately finance any potential principal and interest loss occurring in the operation of our loan program. We also feel that some type of grower entity organization should be granted authority to receive and administer those funds that we speak of, the grower assessment funds.

No. 3, we recommend the sale of tobacco allotments within county boundaries to farmers actively engaged in tobacco production, with the stipulation that the total acreage allotment cannot exceed 50 percent of the tillable land. In our opinion, the allotment holder should be given the opportunity to make an orderly transfer of allotment and thereby be entitled to receive some equity from this transaction. The sale of tobacco allotments would not be the first, since sales have been provided for other crops, such as cotton and peanuts.

No. 4, we support the retention in a producer loan association a very reasonable reserve from earnings of future sales to help offset possible future losses. In order to fully implement this policy, we would recommend that the current crop pools be commingled for more than 1 year.

No. 5, we recommend the continuation of a lease-transfer program with the provision that the allotment would be planted back on the farm of origin 1 out of 3 years, with sufficient tillable land to maintain the allotment. This should respond to the critics who contend that all allotment holders should have tillable land for production. Implementation of this recommendation may prevent future quota losses, such as we understand will occur in peanuts in 1982, as enacted under the 1981 farm bill. Peanut allotment holders had no warning and now find that, if their quotas were not produced back on the farm at least 1 year out of the previous 3, the total quota may be lost.

No. 6, we recommend that all domestic and foreign buyers be allowed to buy directly from our Flue-cured Tobacco Stabilization Corporation. We feel that producer associations such as our stabilization should be authorized to make direct sales if an opportunity arises. We are more than anxious for the current sales organizations to perform this service, but we do not think that an association should be denied this privilege and maintain the rigid position of being 100 percent dependent on others to make sales.

No. 7, we are opposed to any type loss insurance being collected from cigarette excise taxes. We are opposed to any future increases in excise taxes that would include special tax for the tobacco program operation. This would be the beginning in establishing a pattern for many noble and worthwhile causes. It might solicit consumer opposition, as well as opposition from some segments of the tobacco industry.

No. 8, we recommend that leasing of any or all allotments be authorized only during the period of January 1 to March 1 of each year. This would eliminate fall leasing, thereby discouraging any possibility of speculation and overproduction. This action could also have a stabilizing effect upon rental rates for the new crop year.

No. 9, we recommend that the individual poundage and acreage ratio be adjusted at least every 5 years. Under current national average year goals, many individual producers and growers in certain geographic localities are being placed in the position that encourages overproduction.

No. 10, we urge the implementation of administrative action that will discourage and prevent warehousemen and others from becoming or acting as brokers in the lease and transfer of tobacco poundage. We feel that any leasing and transfer of poundage for purposes of warehouse designation or speculation is detrimental to the future wellbeing of our tobacco program.

And, No. 11, we support the Burley tobacco looseleaf sales, USDA grades and price supports for the total quota.

Mr. Chairman, tobacco growers, as we have stated earlier, have always demonstrated a pioneering determination to do what's necessary to have and improve and enhance our program. Our goal has always been and continues to be a reasonable profit for our commodity in the marketplace. Tobacco growers, we believe, accept the challenge we have before us today and the mandate that we operate a net cost program.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Sledge. Mr. Nash, we are delighted to have you with us today. We invite you to proceed with anything you have to say.

STATEMENT OF ROBERT L. NASH, PRESIDENT, GEORGIA FARM BUREAU FEDERATION

Mr. NASH. Mr. Chairman and members of the committee, I am Bob Nash, president of the Georgia Farm Bureau; and it is a pleasure for me to come here and make comments on behalf of the farmers in Georgia and to say "thanks" for the fact that there is a hearing set up in Georgia for March 6 where our individual farmers will have an opportunity to express their views at that time.

I would like to make this statement and say that I appreciate the opportunity to be here and to present the policy of the Georgia Farm Bureau Federation and express the views of tobacco producers concerning the proposed modification in the tobacco program. Voting delegates at the annual meeting in December 1981 adopted the following tobacco policy:

> The escalation of price support has created problems that endangers the tobacco program. Therefore, we urge changes in the present tobacco formula that would reduce the price support, increased under the present formula, by a 35-percent minimum and a 65-percent maximum. This would keep the tobacco prices in line with world markets and will insure a healthy tobacco program.

Tobacco is a very important commodity to the agriculture economy of Georgia. Three records were set in 1981: the highest yield at 2,240 pounds per acre, the highest average price at $1.62 per pound, and the highest value of $196.6 million income to our State. This is the reason we feel that changes should be made to preserve the tobacco contribution to the Georgia economy.

Because 70 percent of Georgia tobacco is sold in export, it is very important that a strong U.S. export program is continued. Producers realize that they must produce high-quality tobacco at a price that is competitive in the world markets.

We recommend the following changes be made: The Secretary of Agriculture, based on the advice of the Producer Advisory Committee, should make adjustments when excessive stocks of certain grades accumulate in the loan associations. These adjustments in price-support loans by grades should reflect an overall loan average rate of not more than 65 percent of the normal increase for a 3-year period. This should assure a no net cost to the Government program.

We support a grower-controlled assessment beginning in 1982 of a minimum of 1 cent per pound to accumulate sufficient funds for underwriting the future losses of the sale of tobacco placed under the loan program.

We support the sale of Flue-cured tobacco allotments and the lease of all types of tobacco within a county. These sales and leases should be available only to farmers with sufficient tillable land who are actively engaged in tobacco production.

We favor the retention of a reasonable reserve from the earnings by the producer loan associations to offset possible losses on future sales.

Cooperation of the total tobacco industry, Congress, and USDA officials will be necessary to develop and implement these recommendations. The preservation of the tobacco program is essential for this commodity to maintain its importance to the agricultural economy of this country.

Mr. Chairman, I appreciate the opportunity to come here and testify; and I want to add a word of caution, to say that we hope that your committees, both the House and the Senate, and the farmers are the ones who draft any modification of our tobacco program. We don't need people who do not know anything about tobacco trying to tell us how to draft a program, as they did in the peanut program. And, when it's all finished, before it's in the record, let us read all of the fine print and be sure we understand what it says. And, then, we won't have the problem we have with peanuts today.

The CHAIRMAN. Everybody that agrees with that, say "Amen."

I do have a few questions, and I'll direct them to either Mr. Sledge or Mr. Nash, the first one being, in your judgment, do you feel the tobacco growers generally are ready to implement the Farm Bureau recommendations in 1982?

Mr. SLEDGE. Mr. Chairman, my observations in discussions and meetings we've had—and since we had the battle last year which brought this thing very much to our attention, the necessity of doing this. We've given this thing some thought over the last several years, as you probably know. I think we are—you know, I think there are some priorities we want to set; and maybe all the things we've addressed ourselves to cannot be done this particular year. But, there are a couple of things at least we think we ought to get moving on very quickly. One is the adjustment in grades, because this seems to be a problem and we can understand that. Our people support it. The other one is to develop an assessment program of some level; and we need to get those clicking right away.

The CHAIRMAN. Mr. Nash, do you agree?

Mr. NASH. Yes, sir. The people of Georgia are ready this year to make the changes, because we feel like, if we do not begin the changes in 1982, it will be too late in 1983.

The CHAIRMAN. Now, we've heard from Georgia and North Carolina. How about the other Farm Bureau States? Do you think they're pretty much——

Mr. SLEDGE. I'll be glad to speak to that, Senator Helms. As I alluded to in my statement, we have over the past year always worked and kept some rapport going with all the tobacco producing States, principally through the American Farm Bureau Advisory Committee. And, they met just last week, I might say. And, especially the statements that Mr. Nash and I have made here today, was agreed upon by that committee which the American Farm Bureau records were taken under consideration. I see no particular problem in it, because we've had contributions from that level. More recently, back in January, we met in Columbia, S.C., with the Burley producing States and Flue-cured States; and we saw more common ground and more unity than I've ever seen before since I have been messing with tobacco.

The CHAIRMAN. If flexibility of the formula is adopted to reduce the Commodity Credit Corporation's exposure to reduce program costs, of course, and to give U.S. tobacco a better competitive position, do you believe there should be a quid pro quo in the matter of direct sales for stabilization?

Mr. SLEDGE. As you know, we have been in that position here in North Carolina—now, I don't know about Mr. Nash; but I think this has been generally supported throughout, also, completely by the several States that we worked with; that there should be permitted direct sales for stabilization. In fact, I might go further and say that, as we've looked into the problems and tried to respond to them, that, you know, we don't want to be all one way on this thing, giving all in one direction. The farmers are making sacrifices and pulling back to save their program. We're a big industry of three principal segments—of course, buyers, farmers, and warehousemen. Maybe there ought to be some consideration given to some of the tradeoffs that might be worked out. And, one thing that comes to mind is imports; and I won't get into that anymore. But, those are the kind of tradeoffs that we need to consider; because this should not be a one-way street on behalf of the farmers.

The CHAIRMAN. Do you feel that the farmers should be permitted to sell their allotments? That is to say, to sell the quota, but not necessarily the land?

Mr. SLEDGE. Our opinion on that—or the reason I think we're in that position in that this program is some 40 years old. As you said, the old philosophy was that the allotment belonged with the land and not the man. This thing has been traded back and forth, sold, gone from one estate to another estate. And, there's been money changed for these allotments. So, therefore, there's been, in most cases, a good equity built up for those who presently own them. We think it only fair, because of that—because he's probably paid for them and paid taxes on them for several years and he does increase that equity year by year. Therefore, he should be given some opportunity to liquidate at least some of those—that equity he has.

Mr. **Nash**. May I add to that? We agree with this, that there has to be someway to allow some of these allotments to get into the hands of the growers; and this is one way of doing it. But, if you'll notice in our testimony, we say that that has got to go to the farmer who is going to grow those acres of tobacco and not to someone else who perhaps has the money to build up a combination of a large amount of it, to lease it out again under the program.

Chairman **Rose**. I want to thank you both for excellent statements. John Sledge and I have talked about this on many instances, and I not only respect the Farm Bureau here in North Carolina, but the process that you go through to put these recommendations together. I don't have any questions. I do have something I want to say to both of you and that you ought to take back home and think about, Mr. Nash. We got in trouble in the peanut program basically because the program got away from the ultimate user of the peanut and that was a process that started long before many of us on this table ever went to the Congress. We've got to maintain—in other words, when I looked around and saw former Members of Congress hired as lobbyists for the candy and the peanut butter companies in the Halls of Congress, fighting the peanut program, I knew we were in trouble. You know, that didn't happen overnight. We must maintain a good working relationship between the ultimate user of our product and the farmer that produces it. That doesn't mean we have to lay down and get rolled over like tractors by what they want, but your organizations and all of us have got to maintain a good open, honest working relationship with the tobacco companies so that this doesn't happen to us in tobacco, as it did in peanuts. I think we came out, with the exception of some things we're working on now—if you'll stick around after this hearing, I'd like to talk to both of you about that some more.

We've got to spread the message a long way for future problem solving, and I think what you've both come up with is good advice for the short term. But, I'm worried about your grandchildren and my grandchildren and how they are going to react to these programs.

Mr. **Wampler**. Thank you very much.

The **Chairman**. Our next witness will be the distinguished Lloyd Massey with the North Carolina State Grange.

Mr. **Rose**. I have a request to insert the statement of Ralph Denton of Willow Springs.

The **Chairman**. That would be the case with all statements that have been modified. It is so ordered, and the Chair asks that the statements of Mr. Harvey from Rocky Mount be inserted in the record.[1]

Mr. Massey, we are delighted to have you; and if you will, identify your associates and proceed.

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[1] See p. 155 for the statement of Mr. Denton and p. 144 for the statement of Mr. Harvey.

STATEMENT OF LLOYD MASSEY, NORTH CAROLINA STATE GRANGE, ACCOMPANIED BY THOMAS ALLEN, BOB BOWERS, AND JOHN COLLETT

Mr. MASSEY. Both Mr. Chairmen, glad to see both of you. Nice to have you back in North Carolina again. We were with Charlie down in Fairmont the other day. It's nice to be with you, Senator Helms and Senator East; and we are just delighted to have all of you here. And, I want to first of all express my appreciation and the Grange's appreciation to you people and your colleagues for what you have done for agriculture. I'm a great believer that agriculture is our basic commodity, not only tobacco but the entire agricultural industry. It's very vital to North Carolina, and we want to express to you our appreciation for what you have done.

I have with me today the chairman of the Grange Tobacco Committee, Thomas Allen from Creedmoor, who is a tobacco farmer. He has tobacco on his farm and leases it out, rents it out, I believe. Next to him is Bob Bowers from Lee County, a tobacco grower and has done an outstanding job in helping advise us on what the tobacco policy should be. On the other side over here is John Collett from Davidson County, a tobacco farmer. And I hope you will ask these gentlemen some of the questions that you want to hear from a tobacco farmer.

I'm Lloyd Massey from Wayne County, a farmer. I've got a little tobacco allotment. I don't want to grow it. I'll never set out another hill of tobacco. As far as I'm concerned, I'm through with it. But, I'm very much interested in it; because we've got some real value in that.

The Grange over the many years has supported a sound tobacco program. I think if you look back in history you will find that to be true. The Grange recognizes that there are some changes that need to be made in the tobacco program. Some of these changes can be made administratively; but there are five, I believe, areas that are going to require some kind of—be addressed by the legislative bodies, the Government. I believe you have a copy of these five proposals, and I will briefly go over them with you.[1]

We recommend that the Secretary of Agriculture be authorized to adjust the support price on noncompetitive grades prior to preparation for the 1982 marketing season. Production should not be—the reduction in the price should not be less than 35 percent of the increase, which the formula will develop, and for future use, if necessary, for grades that should be kept competitive; and that the Secretary should change and be charged with—after consideration of the farm leadership, we would certainly urge the Secretary to get in touch with the farm leadership and also the stabilization corporation for their approval of any changes.

The second, the assessment: That is a possibility. The Grange recommends that the tobacco grower be assessed at 1 cent a pound to build up a reserve to cover any losses that might occur in the support program, beginning with the 1980 crop; and that this fund be in the custody of the Flue-cured tobacco stabilization; and that this be reviewed each year by the staff of stabilization to determine whether or not any adjustments need to be made.

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[1] See p. 109 for the five proposals submitted by Mr. Massey.

The State Grange also strongly opposes any increase in any excise taxes or any other kind of taxes for the purpose of financing any losses that may occur in the price support program.

The Grange recommends that we have—that each producer have the privilege of selling his allotment within the counties; and that such allotments cannot be sold again within 3 years; and that the total allotment cannot exceed 50 percent of the tillable cropland on that particular farm.

The Grange would recommend—of course, this doesn't take legislative action; but I think we need to point this out, that we continue to support the lease-and-transfer program as is now in the law. This, again, would require some legislation, I understand. And, the State Grange recommends that the lease-and-transfer program be limited to a period of January 1 to April 15 of each year.

Now, as I say, we are supporting the sale of Flue-cured tobacco. In fact, 4 years ago in my annual report to the delegate body of the State Grange, I proposed that tobacco farmers be given the opportunity or allotment holders be given the opportunity to sell their allotment, if they so desired. But, we didn't come face to face with it until at this point, just this past committee meeting that we had. And, we feel it is something that needs to be done somewhere along the way. I know that this tobacco allotment is going to be reapportioned. It cannot continue to go on as it is. So, it has got to be reapportioned someway or redistributed. So, therefore, we think that, to get some equity out of it, we would like to have it be permitted that the sale of the allotments could be made within a county.

Now, my colleagues will be delighted to answer any questions that you gentlemen might have.

The CHAIRMAN. I will ask the same question of the four of you, if you think that the tobacco growers generally are ready to implement the recommendations as stated by yourselves and the Farm Bureau, for example.

Mr. MASSEY. Senator, my contacts with the farmers that I come in contact with, if they can get some equity out of it, I don't think the opposition would be too great. And, most of them recognize that these young farmers—and, of course, they know the problems of how those young farmers are going to finance the purchase of tobacco allotments. That's a real problem. But, I think most of the allotment holders would be willing to sell their—or some of them, at least, would be willing to sell their allotment. And, I feel like—now, this is my personal opinion. It's not the State Grange's opinion, and I don't think they would have any right to—it should be between the purchaser and the seller, some kind of arrangement that they can work out so that that person who is acquiring that allotment can know it's his.

Now, I'm going to say this that I didn't say now, Congressman Rose, in Fairmont. I can't help but believe one of the reasons we've got so much poor quality tobacco is because a man comes and leases my tobacco allotment. He don't know whether he's going to have that allotment another year or not. So, he puts as much fertilizer and other chemicals under it as he can to make as much poundage; because he knows, without a doubt, that he's going to get a support price for it.

So, that problem, in my own opinion, has brought about the poor quality of tobacco that we see so much of on the floors in past years, where if he knew he was going to have it on and on, he would probably be more interested in producing quality tobacco that would be acceptable in the world trade.

The CHAIRMAN. Senator East, while you are not a member formally of this committee, we would invite you to ask any questions at any time or make any comments. Feel free to do that.

Mr. Rose?

Chairman ROSE. Thank you, Mr. Chairman. I don't have any questions. I think Mr. Massey has stated himself very clearly. And, you asked a pertinent question, if he thinks his membership is ready to go forward with this; and I appreciate his response. Thank you, Mr. Massey, for this and especially thank you for what your organization means to agriculture in North Carolina.

Mr. MASSEY. I might say, also, I was chairman of the National Grange Agricultural Committee. We took our tobacco program to the National Grange in Spokane, Wash., and it is the policy of the National Grange. So, we've got the National Grange behind these proposals.

Mr. WAMPLER. Thank you, Mr. Chairman. Mr. Massey, assuming for the moment that the law were amended to permit the sale of allotments within a county. Do you have any suggestions or does the Grange have any suggestions of possible ways of helping a potential purchaser finance that acquisition?

Mr. MASSEY. Well, I think, again—I think it would be between the purchaser and the seller to maybe work out a long-term pay program between them and let the seller be the carrier of the note. That could be done, if it was agreeable. Of course, I don't see how we can expect the Federal Government to buy these allotments and let somebody else have it. And, of course, you go to the Farmers Home Administration. There, again, you run into the problem of the continuation of the program and the loaning agent being willing to assume or take that risk. My personal feeling is that it should be between the purchaser and the seller, whatever arrangements they can work out.

Mr. WAMPLER. Thank you, sir.

The CHAIRMAN. Thank you very much, gentlemen.

Now, I have Ron Perry, a farmer from Wendell, and Terry Howes from Selma. If you gentlemen will, come forward.

We welcome you to the committee, and I want to get just as many farmers as possible on this program. As a matter of fact, I want to get all who wish to and are willing to testify; because as I said earlier, I think what you fellows think is mighty important. You may proceed in whatever order suits you.

STATEMENT OF TERRY HOWES, TOBACCO PRODUCER, SELMA, N.C.

Mr. HOWES. Mr. Chairman, I am Terry Howes, and I thank you for the opportunity to speak before you today. I am a tobacco producer from Micro Township in Johnston County, and I represent growers' concerns from our area—and, I'm sure from all tobacco-producing areas. I am a true producer, in that I not only own an allotment quota, but also raise tobacco and come home at night with gum under my nails during the hot summer months. Gentlemen, that is a must qualification to be considered a true tobacco producer.

I realize that the major purpose of our hearing today is to deal with the problem of making stabilization cost free to the taxpayer, with the exception of administrative costs. I endorse implementation of proposals introduced by the North Carolina Farm Bureau, Mr. Sledge, concerning this matter, providing my proposals are also implemented. But, sirs, we also must confront other producer issues or we face the possibility of no need for a program at all; because many of our producers will be bankrupt.

I attended a meeting in Fairmont on February 1, chaired by Congressman Rose, and was displeased at proposed modifications that did not relate to true producer concerns and the effect the changes would have upon them. Rather, Mr. Sledge and other farm leaders seemed apathetic to the well-being and the future of the tobacco producer. Maybe this was true because growers had not verbalized their viewpoints and the leaders had no ideas to relate to or maybe this apathy prevailed because of preoccupation with their personal interests.

In order to decide what changes should be implemented, I feel that one should examine three areas of our tobacco program: The history and purpose of the program, what the program is now, and what we want it to be in the future.

In 1939, the program was set up to benefit producers as a means of protection against overproduction and as a provision for financial stability. It guaranteed a fair return in the marketplace if a grower produced a good quality leaf. Tobacco provided many jobs both directly and indirectly and was king in the economy of North Carolina. This situation prevailed for many years.

In 1960, we had greater than 60 percent of the world's market in tobacco. However, today we find an ever decreasing demand for our leaf in the marketplace. In 1979, we barely had 25 percent of the world's market.

Currently, we are looking at a very troubled program if modifications are not made for the producer. The needs of the programs of today are the same as the needs of the program in 1939. We need to compare our current tobacco program with the program in its flourishing years, assess the differences and determine what steps can be taken to revert the program back to its original intent which is to guarantee a fair return from input into production.

Let's examine some of these differences. In 1965, lease and transfer was implemented. By transferring allotments from one farm to another, one could expand his operation to a much greater portion. As a producer grew more and more acres, the quality of his leaf declined; and as tobacco companies received this inferior quality leaf, they found more and more nested, undesirable tobacco, thus increasing their cost and decreasing the demand for their inferior product. This situation did not prevail during the years without lease and transfer.

Another difference in our program as of now than in earlier years is the issue of who has controlling interest in ASCS elections and referendums. At present, allotment holders outnumber producers by a margin greater than 4 to 1 according to the Tobacco Leaf Export Association figures. In our county, I expect the margin to be much greater than that.

If a referendum were held today, my vote and my wife's vote would be outnumbered by a margin of 20 to 2. We need to revert back to voter control by the producers.

Still another difference in the program now than in its earlier years is the issue of outrageous lease prices. Gentlemen, this issue is of utmost importance to producers. Current prices in our county are from 55 to 70 cents per pound or $1,100 to $1,400 per acre. Imagine that. $1,400 per acre for merely the privilege or the right to plant an acre of tobacco.

In the earlier years of the program, no such injustice existed; and it should not be allowed to exist today. In its original status in 1939, allotment was not property, but a Federal privilege to participate in tobacco production. Over the years of lease and transfer, allotments have evolved into an artificial property. It has been passed from one generation to the next, resulting in individuals possessing allotments and receiving dividends from tobacco, while having no input whatsoever into its production. Many others, such as doctors, lawyers, real estate people, bank officers, Production Credit Association, Federal Land Bank Association, officers and administrators, Farm Bureau leaders, private corporations, State leaders and, yes, politicians also reap the benefits of the tobacco producers.

If a person or private enterprise has no input into production, he should receive no benefits from it. Some of these inputs are seed, chemicals, fertilizers, equipment, finances, and labor. Most of our allotment holders today supply none of these needs. Our tobacco leaders feel responsible for formulating new ideas and for years promoted changes to benefit allotment holders. It seems that their conception of fairness is whatever we can get by with.

As a result, in 1982, allotment holders will receive greater than 80 percent of the projected net income in tobacco, while the producer will receive the remnants.

In a recent cost analysis prepared by Dr. Charles Pugh and two other tobacco specialists, we find that the projected production cost for 1982 will average $1.10 per pound. Considering the lease price from 60 to 70 cents per pound, a producer can expect a net return of negative 3 to 7 cents per pound, while these allotment holders enjoy a profit of $1,100 to $1,400 per acre. The producers will be literally living off depreciation of their other investments.

In our county, there are 5,492 farms assigned to tobacco allotments; yet, approximately 60 percent of these have no tobacco planted on them. Some action must be undertaken to eliminate these corrupt inadequacies.

In assessing our current situation with the tobacco program, one can conclude that all producer problems have surfaced as a result of deviation from the original intent of the program. Thus, our goals should be to return the program to its earlier efficient status and to maintain this achievement so as to preserve the vast economic benefits it has on North Carolina.

I propose the following mechanisms by which we might arrive at these goals: No. 1, we endorse proposals one, two, four, seven, eight, and nine submitted by Mr. Sledge and the Farm Bureau Federation. By implementation of these policies, our program would be be complete and independent of taxpayers and thus reduce future threats.

No. 2, we propose to retrieve allotments from nonassociated individuals and private corporations whose only interest in tobacco lay in exploiting the program for their personal benefit. This provision could be implemented by examining each farm owner's allotment on a retroactive basis. If poundage was leased off the farm for 3 consecutive years, this allotment would be placed in a pool through ASCS offices and reapportioned to producers.

This proposal would weed out many of our freeloaders in the tobacco program. As far as retired farmers are concerned, the vast majority of them would not be affected by this action. These people have experienced hardships, frustrations and financial cost of raising tobacco and have also not participated in the greedy policy of holding quotas the last few days to benefit from inflated lease prices. Rather, these people have been concerned with the producers' woe and the manner in which their farm was tended. They have rented their crops to neighbors or other local producers who planted it on the farm assigned the allotment.

As for an individual who has indulged in holding allotments for very high prices, with no concern for the producer or the future of the program, we say, let him live or die, based on his record of action. If he has leased the poundage off the farm for 3 years, he has already been paid a fair price for that allotment.

No. 3, we propose that no tobacco poundage be inherited by a nonproducing heir. This poundage would go into an ASCS pool and be redistributed to producers. Ultimately, this would return tobacco allotments to the producers.

No. 4, we support discontinuing the practice of lease and transfer. This practice was the root of our current producer problems. It has provided the basis for artificially inflated lease prices and has promoted speculation of tobacco quotas by warehousemen and others.

No. 5, we propose to return control of elections in referendums to producers. Daniel Webster defines a grower as "one who produces, cultivates, or tills." We should adopt this criteria, along with financing, in determining eligibility to vote.

No. 6, we strongly recommend that no sale of allotments be allowed. Tobacco allotment is a Federal privilege and no one has legally established that it is a real property. Also, if sale of allotment were allowed, who is to say that Government in the future would not throw out the program for some unforeseen reason. The buyer of the allotment would be the real victim of our shortsightedness here today.

Sirs, I acknowledge that some of my proposals conflict with those offered by others. I strongly contend that my modifications should be implemented; because they are just and are the intent of the original program and, also, because they would return the program back to its original status. For the future of the tobacco producer, the tobacco program, the equipment dealers, fertilizer dealers, and other farm-related businesses; but, mainly, for the future of the people and economy of North Carolina, I urge you to accept and implement these proposals. I also realize that you will have to analyze all proposals with close scrutiny before deciding on a line of action to be taken.

And, I might add that I do not envy the time-consuming task that awaits you.

I offer one last proposal. Until final conclusions are drawn, resulting in immediate relief for our producers in 1982, I propose that lease prices in 1982 and thereafter, until a final action is taken, be lawfully set at one-fifth of the net sales of a given allotment. This action would require a marketing card from each farm allotment, allowing one-fifth of the net sales at the warehouse being awarded to the allotment. Implementation of this proposal would allow the producer more net return for his labor and would keep more of us in business for the future. This action would promote a high quality leaf and a more competitive leaf on the world market. Enactment of this proposal would also share the burden of expenses such as warehouse charges, auction fees, tobacco subsidy assessments, grade fees and, soon to be, financing stabilization with the allotment holders. I strongly encourage you to enact this measure into law.

Mr. Chairman, I close my testimony with this final thought: We are all aware of the new generation of welfare recipients who were reared with the philosophy that they can live without responsibilities of ordinary citizens. For years, they have been accustomed to receiving a free ticket and feel mistreated and abused when the Federal Government reduces or cuts out their food stamps and other financial aid. Senator Helms, you have taken a strong stand to eradicate these undeserving freeloaders of society from the welfare system. I urge you and the other committeemen to take a similar stand for justice by eliminating the freeloaders of the tobacco program.

I thank you again for allowing me this time.

STATEMENT OF RON PERRY, WENDELL, N.C.

Mr. PERRY. Senator Helms, Senator East, Congressman Rose, and other Congressmen, my name is Ron Perry. I am a farmer from eastern Wake County, a young farmer for a change. I haven't seen too many young men up here this morning that are actively engaged in agriculture and that has been a concern of mine. You people need to hear the problems that we are confronted with as young men, wanting to be involved in agriculture for the rest of our lives. This program is of utmost importance to us and our future, for us and our families. Some serious changes have to be made in the program. I would agree with most of what my colleague here has said. I think one of the real problems that we as farmers face—not only tobacco farmers, but all farmers face—is the loss of our prime farmland in the United States. North Carolina is a good example of that. We are going to lose 700,000 acres of our prime farmland in this State in the next 18 years.

I view the tobacco program as an instrument that could be used to maintain some of our prime farmland. A good example of that would be here in Wake County. If that tobacco allotment is tied to that land that it is associated with, maybe some of our land won't be changed into shopping centers, industrial sites, and home sites for people from other States that are moving here. I think that tobacco allotment—if you don't have the tillable land for that tobacco allotment, it should be returned to the pool and equally divided amongst the tobacco allotment holders in our county. C.P. & L. has no business with a tobacco allotment. They're not in the business of producing tobacco. A lot of that fits a lot of people in our county. The program was designed for tobacco farmers, the people that produce tobacco; and it should be returned to that intention.

And, I think now if you would look at the active tobacco farmers in North Carolina, that they probably rent over half the pounds—probably a higher percentage. I don't know what it would be—of the allotment that they grow, which indicates that most of the allotment holders are not involved in the actual production of tobacco. It's become a speculators' market; and therefore, the rental rates have gotten ridiculous. The tobacco farmer himself is not the one that is making a reasonable living off the tobacco. Normally, it's the people that own the allotments, the bankers and the fertilizer dealers.

I would hope that out of this that the tobacco returns to the land that it was associated with, that maybe every year it should be grown on that land; and maybe then we will be able to continue to have agriculture in Wake County 20 years from now.

Thank you.

The **Chairman.** Can I ask you gentlemen the size of your farms?

Mr. **Howes.** Sir, I tend about 25 acres of tobacco. I own 2½ acres of allotment and lease the rest.

The **Chairman.** Two and a half and lease the rest. Do you grow any other crops?

Mr. **Howes.** Yes, sir. I grow corn, wheat, soybeans, and sweet potatoes.

The **Chairman.** How about you?

Mr. **Perry.** Last year I had about 11 acres of tobacco. This year I plan to have about 18 acres. I grow corn, soybeans, and hogs.

The **Chairman.** How many acres do you lease for tobacco?

Mr. **Perry.** We lease all of it.

The **Chairman.** All 11 acres?

Mr. **Perry.** We lease all of it—all 11 acres. My father owns a small allotment; and I would be the first to say that, if he didn't grow it, then it should be turned over to somebody that does grow it and that would cost him. I'm aware of that. But, I think it's only right that the people who produce the tobacco have the tobacco in their use.

The **Chairman.** We don't have a résumé on all witnesses; but you two young men are very articulate, regardless of whether the audience agrees or disagrees. Apparently, they agreed, judging by the applause. What are your educational backgrounds? Did you go to North Carolina State, Mr. Howes?

Mr. **Howes.** I attended the University of North Carolina, sir.

The **Chairman.** What was your major?

Mr. **Howes.** Zoology.

Mr. **Perry.** I have a B.S. in agricultural economics from North Carolina State. I also have a B.S. in preveterinary medicine from North Carolina State.

The **Chairman.** Well, you certainly are two articulate young men; and it was very interesting testimony. We appreciate it.

Mr. **Howes.** Mr. Chairman, might I say one more thing?

The **Chairman.** Certainly.

Mr. **Howes.** I'd like to say that originally in 1939, when the tobacco allotment was set up, it was set up—there were two groups that were associated with it. It was assigned to—the allotment was assigned to the farms, and the fellow that—the owner of the farm either grew the allotment or the owner of the farm either sharecropped it. And that was the basis of the intent of the program back then. What the regulations would apply to, it would apply to that situation. It has deviated so far from that now that the producer has no representation at all.

Mr. Perry. Excuse me, sir. Could I say one thing to you?

The Chairman. Yes, sir.

Mr. Perry. I disagree with the Farm Bureau's attitude that we ought to be able to—well, not totally disagree. I think we could sell tobacco allotments, but I think we ought to be very careful about it. If we allow the sales, we ought to be sure that there is an equitable distribution of those pounds to people that don't have the economic resources to go out and purchase those pounds. If you had to go out and purchase them right now, I think that Dr. Pugh from North Carolina State would tell you that 5 years ago the annual valuation of tobacco pounds was about five or six times the annual rental rate. That's what 1 pound would be worth. And most of us could not even begin to think about buying those pounds. And people that do have some excess money are going to buy those pounds up; and it's going to be very polarizing to a very select few people that control the tobacco market and tobacco pounds. And I don't think that's what the program was designed to do.

Chairman Rose. Mr. Howes, you said that there were a lot more people who were owners of tobacco allotments than—which way did you say it?—than there were people who grew it?

Mr. Howes. Yes, sir.

Chairman Rose. In other words, that most of the tobacco allotment owners were not also grower-producers; but that the allotment owners by and large are people who are renting out their allotment.

Mr. Howes. The majority of the allotment owners, roughly 60 percent in our county, do not grow the tobacco. They rent it out. And, that is not a true picture of the ratio.

Chairman Rose. You were quoting from Hugh Kiger's organization, I believe, the Export Association?

Mr. Howes. Yes, sir.

Chairman Rose. He was quoting from USDA figures or that's what he said he was doing when we questioned him about that previously or one of his people here. I question those figures, and I question them because of the way the computer system is set up at USDA for compiling those. But, I'm not disputing your figure as to your county. I was just asking, how did you arrive at that for your county? Did you ask your county commission?

Mr. Howes. You mean for the 4- to-1 ratio?

Chairman Rose. You said that 60 percent.

Mr. Howes. Yes, sir. I have information to document that. William Wellons, who is the Director of the ASCS——

Chairman Rose. For the county committee, OK.

I would only—you know, you've obviously brought forth some very far-reaching proposals. My only advice to you is that we don't need to foster any dissention among the tobacco family. I think it's fine that you have your opinion, and I think it's fine that Mr. Sledge and his organization has their opinion. But, as Senator East said when he first made any remarks today, regardless of whether we disagree—

you know, if the Baptists spend all their time fighting the Methodists, they would never get the Lord's work done. So, you know, you have your view and Mr. Sledge has his view; and we're going to deal with all of them. But, if we get to fighting among ourselves, we're in real trouble; and I think you appreciate that.

Mr. HOWES. Sir, I did not—my reference to Mr. Sledge was not anything of disrespect.

Chairman ROSE. I know that. I respect you just as much as I respect anybody else with an opinion about this program. So, don't get me wrong. You've done a very competent job of putting your ideas down on paper; and we're going to give it serious consideration. But, let's try to keep farming in the family; because it kills us if we don't have it.

Thank you.

The CHAIRMAN. Senator East?

Senator EAST. Gentlemen, I would, of course, like to thank you both for coming and bringing your candid remarks here. You raised one thing, Mr. Howes, on page 3 of your statement that I would like to pursue briefly. It's already been raised this morning, but I think it is worth reiterating. This problem of nesting is a difficult subject and a delicate subject. I'll be candid: In Washington you are trying to build up support for the program in whatever form it takes—and you obviously, in selling your case, want the people you're representing to be people of the highest integrity. That would be understandable. I realize that in any large group of people, you're going to have those who, frankly, are not honest. And, that's unfortunate. That's going to be true of any group of professionals, and tobacco growers and producers are great professionals and North Carolina leads the States in that. But, I do feel it's an issue worth underscoring, that if the practice became widespread and extensive and the enemies of tobacco were to document it, it would make life extraordinarily difficult for whatever form the program might take.

I'm talking about a very real and troublesome political downside. What are your thoughts on how that could be controlled or eliminated? Because, as Charlie Rose is saying—and I agree with him, and I know Senator Helms and Congressman Wampler would share in it—but anything that can be interpreted by the enemies as either a lack of integrity or a deep division or this or that can be used against us; it makes life difficult, to be honest about it. It's just that simple.

If nesting can be eliminated or reduced to such a small margin that we can honestly say it isn't a problem—it's just a few rare bad apples—we're going to be all right. But, if it grows and spreads, it's like a cancer. It's an infection, it hurts, and it makes it more difficult to defend. I just wondered what can be done, if anything, to control that. Maybe we're just talking about the basic integrity and honesty of people, and maybe that's beyond a farm program to deal with. But, maybe you have a thought on it; because I would like to know what you think.

Mr. HOWES. I think one thing we can do is, you know, adopt policies for the future that would promote growing good leaf. You know, you can't control weather conditions or anything like that; but if we adopt policies that would benefit the producers if they grew good leaf, they wouldn't have as much to throw in there. And, other than that, it is just a matter of integrity, like you say.

Senator **East**. Well, again, I thank you and I appreciate your comments on it.

Mr. **Perry**. I would think you're dealing with basic human nature and that's hard to legislate. Maybe the penalty for nesting your tobacco should be increased to make it less attractive to do it. I know or I have heard of cases where, if you're at the warehouse and maybe a pile is discovered, then it's just pulled off the line and nothing is done about it. But, maybe the penalty should be a little bit stricter than that. Maybe that would discourage it. I don't know, but I think probably it's going to get down to just an individual grower making a decision about what is honest for him to do.

Senator **East**. You don't see any specific mechanism we might use to instill grower discipline or some way of first identifying it and then imposing discipline or a penalty for it, or do you think it's one of those things we're just going to have to count on the honesty and integrity of people? I guess it's both in a way.

Mr. **Perry**. I would think so. I'm a bit amazed at having as much as we do, because the way the graders sometimes tear our tobacco piles apart and the way the buyers do, it's amazing that any of the nesting can get by.

Senator **East**. Do you think farmers would be responsive to some sort of fair and equitable program that attempted to ferret it out and penalize them, because it hurts everybody?

Mr. **Perry**. I think that most people want to market good quality tobacco and they don't want to take things to market that they shouldn't. I really believe that. I think people want to do what is basically right, and I believe they would sell good quality tobacco, as much as they can.

The **Chairman**. Thank you very much, gentlemen.

Mr. **Howes**. Mr. Chairman, might I make one final comment?

The **Chairman**. Yes, sir. We're an hour and a half behind time, but you may.

Mr. **Howes**. One final comment. I mean no disrespect to the Farm Bureau organization, but I would like to say that the majority of the constituency represented by the proposals by the Farm Bureau do not represent producers. Producers are a very minority. I'm talking about tobacco producers. They are a minority. And, that should be taken into consideration when you make your final judgments.

The **Chairman**. Thank you very much.

The next witnesses are Hugh Kiger and John Campbell, representing the Leaf Tobacco Exporters Association and the Tobacco Association of the United States.

Chairman **Rose**. Mr. Chairman, I don't want to deprive you or anybody here of the privilege of hearing Mr. Kiger read his statement or Tobacco Associates or Bright Belt Warehouse either. But, I looked at my watch; and I know that you and I both want to get a lot of our individual farmers on the record. These gentlemen have testified at two of the previous hearings, and I wonder, Mr. Kiger and Mr. Campbell, would you object to letting us take your full statement for the record and then you just summarize it from your heart, so to speak, the chief points that you want us to get here today?

Mr. KIGER. I would be willing to brief my statement somewhat; but since myself and Mr. Campbell, who previously has not talked to the group and would like to make some comments following mine, that the other groups, such as the Farm Bureau, the Grange and stabilization made statements at Fairmont and other places, I think we should be accorded the privilege.[1]

The CHAIRMAN. You certainly will, sir. You may proceed.

STATEMENT OF HUGH C. KIGER, EXECUTIVE VICE PRESIDENT, LEAF TOBACCO EXPORTERS ASSOCIATION AND TOBACCO ASSOCIATION OF THE UNITED STATES

Mr. KIGER. Mr. Chairman, distinguished Members of Congress, my name is Hugh C. Kiger. I'm executive vice president of the Leaf Tobacco Exporters Association and the Tobacco Association of the United States. I have with me, John Campbell, who is a tobacco consultant, the former vice president of Imperial Tobacco Co., and is chairman of the quality committee, Tobacco Association of the United States.

Members of our association purchase about 70 percent of the tobacco grown in the United States and export practically all of the U.S. unmanufactured tobacco shipped overseas. Our members export practically all types of tobacco; however, because of time limitations, I would confine my testimony today to Flue-cured tobacco. It is the purpose of our association to protect and promote markets for American leaf tobacco. Over the years, we have strongly supported an open international trading system and have worked diligently to achieve better access for U.S. tobacco on foreign markets. Mr. Chairman, we are here today because the tobacco program is in serious trouble.

The CHAIRMAN. Mr. Kiger, would you suspend just a moment. I am going to ask the indulgence of all of our friends to keep the noise level at a minimum so that we can hear you up here. I thank everyone for their patience. You may proceed.

Mr. KIGER. It is in trouble economically, because we can no longer assure our foreign and domestic customers an adequate supply of high quality U.S. leaf at competitive prices. It is in trouble politically, as evidenced by the recent close vote in Congress on amendments to abolish the program. We believe that survival of the tobacco program is vital to the future health of the tobacco industry and to the economies of the many small rural communities that depend on tobacco for a livelihood. But, the program will not survive, it cannot survive unless it is brought into line with the realities of the 1980's.

This requires that we make major changes in the tobacco program and that we make them now before the problem gets worse. The tobacco price support program is based on a parity formula which has little to do with the cost of producing tobacco. Under this formula, the tobacco prices have escalated at such a rapid pace that U.S. tobacco has lost its competitive position in world markets. As a result, our foreign customers have begun to look elsewhere for supplies. And, I might point out generally that the U.S. share of both the production and trade has declined dramatically in the period of the past 15 to 20 years.

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[1] See p. 110 for the prepared statement with attached appendices of Mr. Kiger.

In just the last 7 years, since 1973, domestic use has declined by more than 250 million pounds and exports are down by more than 100 million.

I would like to point out that the effective Flue-cured quota for 1982 will be down almost 12 percent from the 1981 level. With normal weather conditions, U.S. marketing of Flue-cured is estimated about 940 million which is 100 million pounds less than 1982, 200 million less than 1981 marketings, and nearly 500 million pounds less than 1975 marketing.

Unless the program is modified so that this trend can be reversed, the United States will be producing only 400 to 500 million pounds of tobacco by the end of this decade. It is a vicious cycle. Our price supports reduce sales and lower production quotas. And, the big loser in the process is the grower. If the tobacco isn't produced, the rest of the industry—warehousemen, dealers, manufacturers, and exporters—are losers also. The grower can't live with continued reductions in quotas. If the quotas are cut, farmers are forced to lease additional pounds in order to operate. If less pounds are available, as is the case in 1982, the cost of leasing quotas is going up. As was pointed out earlier, I think in this year, in some cases, it will be 60 or 70 cents per pound.

The basic problem is price. USDA statistics show that U.S. flue-cured tobacco is price supported at about 50 percent above the cost of production. That is excluding land management and lease cost. This compares to peanuts at 121 percent and corn at 111 and wheat at 85 percent.

The quality of U.S. leaf has also declined noticeably in recent years due, in part, to the way the price supports are operated. For example, in 1973, 84 percent of the U.S. Flue-cured crops was composed of mature and mellow grades. In 1981, which was considered a good crop, this figure was only 42 percent. The plain fact, Mr. Chairman, is that the grower has no incentive to produce high-quality leaf when he can sell at the support price and clear 50 percent on the deal.

What changes are needed in the program? Price support formulas should be changed to bring the price more in line with grower costs and the competitive realities in the marketplace. We need a more market-oriented program. The best way, and perhaps the only way, to insure that the program is run on a cost-free basis to the taxpayers is to modify the price support formula so that tobacco can be marketed competitively instead of stockpiled in a pool. Such an approach would deal with the real causes of the problem, helping eliminate the surpluses rather than financing their subsequent disposal.

Specifically, we recommend, one, stabilization of the support of the 1982 crop at the 1981 level; two, provide discretionary authority to the Secretary to set the support price for 1983 at 115 to 130 percent of the cost of production, excluding land management and lease costs; three, provide the Secretary authority to further adjust support prices for individual grades of tobacco which he determines to be in excess supply, to encourage utilization of such tobacco domestically or for exports.

Reducing the gap between U.S. and foreign prices would improve our competitive position and provide a basis for reversing the current down trend in U.S. production, domestic consumption, and export. Increasing sales of U.S. tobacco to domestic and foreign manufacturers offers the only real hope for expanding U.S. production. Currently, allotment holders outnumber Flue-cured tobacco growers by a ratio of about 4 to 1. While both have a say with respect to the program, their interests are not identical. Allotment holders seek to maximize income from leasing, and leasing income increases when quotas are reduced. This sets in motion a cycle that eventually works against growers' interest and which is likely to continue as long as nongrowers are permitted to hold allotments. The only way to forestall legislation to eliminate allotments entirely is through changes which would require allotment holders to grow tobacco as a condition of owning allotments. Authority for sale of allotments would allow current holders who do not choose to grow tobacco an opportunity to recover their equity.

With respect to quotas, we recommend, one, that quotas should be in the hands of actual growers and, two, authority should be provided for the sale of quotas within counties to growers with sufficient tillable land.

Mr. Chairman, we believe that our recommendations on the quotas is consistent with the proposal supported by a number of farm organizations. Mr. Chairman, we have been given an opportunity, perhaps the last opportunity, to make the kind of changes in the tobacco program which are necessary to insure that it can survive economically and politically. We are at D-day. There are no tomorrows, and there is no time for halfway measures or Band-Aid solutions. We need to act now to eliminate abuses of the allotment system by restoring the original intent of the law, that growers hold allotment. And even more important, we need to act now to halt further escalation in price supports for the 1932 crop so that we can begin on the road to recovering our export position in the world market and to increased production in the United States of high-quality tobacco. This will insure the continued prosperity of the growers, while at the same time, insure the taxpayer that the program can be run on a cost-free basis.

The future of the leaf tobacco industry is in the hands of all of us. I hope we are up to the task.

Mr. Campbell would like to make some brief comments.[1]

The CHAIRMAN. Very well. Thank you, Mr. Kiger. You may proceed, sir.

STATEMENT OF JOHN S. CAMPBELL, CONSULTANT, JOHN S. CAMPBELL LTD.

Mr. CAMPBELL. The United Kingdom was the No. 1 buyer of U.S. Flue-cured tobacco leaf for the first 70 years of this century. During this same period, I.T.L., Imperial Tobacco Limited, purchased more American leaf than any other export buyer in the world. But for the past 10 years or so, the United Kingdom has been using far less American tobacco.

From 1973 to 1977, exports of U.S. Flue-cured leaf to the United Kingdom declined 46 percent. In 1977, I.T.L. purchased approximately 30 million pounds less than its average yearly purchase in the 5-year period, 1966–70, a drop of more than 80 percent. Andf since 1977, I.T.L. purchases have remained at this great reduced level.

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[1] See p. 124 for the prepared statement with attached appendices of Mr. Campbell.

As I.T.L. spokesmen explained publicly in 1977, a primary reason for this dramatic decline is that I.T.L. no longer profits by paying the high price for American leaf. The amount of good quality U.S. tobacco carefully handled and graded, which I.T.L. requires, diminishes each year. And the demand for the limited amount of such quality leaf has forced prices up to unrealistic levels. For example, from 1973 to 1981, the U.S. support price on Flue-cured grade B4F, which might be regarded as the hub grade of the United Kingdom market, increased 119 percent. And as prices rose and supplies of the necessary quality diminished, I.T.L. has not been able to be as selective in its leaf-grade standards to obtain its required amounts of tobacco.

I.T.L. foresaw problems with U.S. supply long before such patterns developed. In the early 1960's, I.T.L. began reducing staff and closing processing plants in the United States in order to get overheads in line with the decreasing amount of its American purchases. And, in the 1970's, the pace of such reduction accelerated. In 1980, when the level of purchases no longer warranted a large capital investment, I.T.L. sold its last remaining leaf-processing plant, located in Wilson, N.C. After nearly 80 years in the United States during which I.T.L. had owned and operated as many as 20 leaf-processing plants at one time, the company now purchases its American leaf through a single U.S. dealer.

International purchasers, who have the ability to buy leaf throughout the world, today look primarily for two factors, quality and value for money. Though Flue-cured tobaccos appear fairly similar regardless of country of origin, their intrinsic qualities are not the same. The U.S. leaf, as we all agree, has traditionally been considered supreme by cigarette manufacturers because of its balanced chemical content, flavor, aroma and excellent processing and manufacturing characteristics. And, in the past, most other countries have produced lower quality grades that generally have been used as filler.

But, the 1970's changed all this. Foreign cigarette manufacturers have found alternative sources for Flue-cured tobacco in Brazil, South Korea, Thailand, Zimbabwe, Canada, and other countries. Leaf quality has steadily improved to match that of the United States. And, many of these new sources now have superior systems for leaf grading and sale, including the removal of foreign matter, suckers, stalk, and sand which are unwanted.

Tobacco prices of U.S. leaf also rose during this same period to such a high level that U.K. manufacturers were forced by economic factors to use as little U.S. tobacco as possible in their products. And from 1973 to 1981, the average support price of U.S. Flue-cured increased 107 percent. Because the United States had an increase on the top grades, this was unfortunate, too. I give one example of other countries' prices as a comparison. In 1980, the United Kingdom could purchase green leaf equivalent to a B4F grade from Brazil at 68 cents a pound, almost 2½ times cheaper than U.S. prices. Now, based on current projections of support prices, therefore, the future of U.S. Flue-cured exports is not promising.

International tobacco price analysis is a complex subject that has received insufficient attention from Government and private-sector researchers. Yet, increasingly, international buyers are equating the value of each particular country and grade per unit of quality with new-brand formulas of cigarettes. The key to the future is the relationship of price to the quality of the tobacco, for all grades. In other words, gentlemen, a price-quality ratio or value for money. The country of origin is no longer the primary concern.

I don't need to list the attributes of how and why the United States is such a good place to grow tobacco. You know that. But, despite these many assets, since 1970, the United States has exported vastly reduced amounts of Flue-cured tobacco to the United Kingdom, traditionally, a leading buyer of American leaf. Imperial Tobacco Limited's decision, in the spring of 1980, to close its final American processing facility dramatizes this trend. I.T.L. has chosen to stake more of its future on the tobacco of other countries, rather than on U.S. leaf. The closing—I think this is very important. The closing of this I.T.L. facility, in many ways, should be a signal of alarm to the whole U.S. tobacco industry. If you like, we can put it another way. If I.T.L. purchases alone were the same today as in 1970, the current Flue-cured tobacco quota could be 10 percent—I repeat—10 percent higher.

I submit to you, gentlemen, that we need a major change if we want to continue our exports. Thank you.

The CHAIRMAN. Thank you, Mr. Campbell. Just a couple of questions for Mr. Kiger.

Has your organization worked for better access for U.S. tobacco in foreign markets?

Mr. KIGER. Yes, Mr. Chairman, we have worked diligently in this connection. I would like to mention that officials from our organization have participated in discussions in the Common Market.

The CHAIRMAN. I am going to ask you to suspend. I cannot hear you. Again, I ask you the indulgence of our friends. It is so difficult to hear up here, to hear the responses to questions. If you could, keep the noise level down just a little bit.

Mr. KIGER. Officials from our organizations have traveled to European Community to participate in discussions relative to lowering barriers to U.S. tobacco in that important market. I might say, at the present time and for the past several years, I have served as vice chairman of the Agricultural Technical Advisory Committee for Trade Negotiations. I am a member of the Agriculture Policy Advisory Committee, and over the years, we've worked very closely with the Department of Agriculture and the U.S. Trade Representative's Office in an effort to obtain better access for U.S. tobacco.

The CHAIRMAN. This very week, we had Mr. Dalzager in a little luncheon to discuss what we perceive to be an all-across-the-board Common Market discrimination against U.S. agricultural commodities, particularly with respect to subsidized exports by other countries. What is your feeling about discrimination against U.S.-produced tobacco by other countries?

Mr. KIGER. Well, certainly, we would have strong objection to any discrimination against U.S. tobacco by other countries.

The CHAIRMAN. I know; but do you feel they are discriminating?

Mr. KIGER. Are you referring specifically to the European Community or to some other market?

The CHAIRMAN. The whole ball of wax.

Mr. KIGER. I would say this: There are places that have, I'd say, higher tariff levels and more restrictions than we have. There are a number of them that have less. But, generally speaking, we operate pretty much within the framework of the GATT which was agreed to by the parties of the GATT, of which we are members. I think the framework of the tariff levels and structure of the tariff here was negotiated in the GATT. They're bound by the GATT. And, any departure from that, would be a violation of the GATT, and on our part, it would be contrary to our trade policies.

The CHAIRMAN. Of course, it depends on who determines when and how there has been a violation. At this meeting that I hosted, we had Ambassador Brock and Secretary Block; and, frankly, we gave the commissioner a hard time.

Mr. KIGER. I read your statement. I thought it was a good, strong statement. It so happens that, in the question of tobacco in the E.C., it's not a major problem and the extent to which they get into substitute special sales is very minor. It doesn't represent a major problem.

The CHAIRMAN. Let me ask you about direct sales for stabilization. Do you see that as a—how do you put it?—fair quid pro quo for the numerous adjustments that farmers appear willing to make in the lower grade formula, the lease and transfer and the self-supporting program?

Mr. KIGER. Well, I would say this, Senator: We certainly understand that stabilization is a farmer co-op. However, its sole function is to carry out the price support program, functioning as an arm of the Government. With respect to direct sales, we are opposed to this. We do not feel that we, as private enterprise, should in effect compete with what amounts to an organization that functions as an arm of the Government. If farmers, however, would like to set up a cooperative with their own funds, separate and distinct from the Government, we would have no objection to this.

The CHAIRMAN. What is your reaction to the percentage suggested by the Farm Bureau in connection with adjustment of the loan rate formula?

Mr. KIGER. We would prefer the suggestions which we mentioned, Senator, which are somewhat greater in scope. We don't think that their percentage is sufficient to do the job.

The CHAIRMAN. Do you see any room for flexibility?

Mr. KIGER. Well, I would say this, Senator: Actually, you've got recommendations ranging all the way from adjustment of 35 percent and that they change in 1982 to 60 percent up to—we talked 100 percent. So, I think there are variations in recommendations; and I think there is some room for flexibility.

The CHAIRMAN. Let's get to the meat of the coconut now, Mr. Kiger. I noted with interest your recommendations. We will be attentive to them, of course, but what would your recommendations do to producer income—I mean the money that the farmer makes, if he's allowed to make any?

Mr. KIGER. Let me use an illustration, Senator. In talking of the period ahead here, I think the farmer is going to be much better off if he can grow 1½ million pounds and sell it for $2 than if he's growing 500 million pounds and selling it for $3 or $4 a pound. I think we might look at the experience in Canada. I suggest you might look at their experience. They have one that's very parallel to my comments here.

The CHAIRMAN. Very well. Congressman Rose?

Chairman ROSE. Mr. Howes, while Mr. Kiger was talking, I thought about your statement and your mentioning of Mr. Sledge. I would urge you to get to know Mr. Kiger so that maybe you can mention him in some of your future remarks. We tend to talk about those we are familiar with, and I wish you all would get more familiar with Mr. Kiger.

Mr. Kiger, I have been over this with you before; and I might as well get it all out again today. Since you want to be here, I am happy to ask questions. Your organization is represented—is a conglomeration of leaf dealers who both export and import tobacco. Is that not correct?

Mr. KIGER. That is correct. Our primary function is exports. We export some 500 million pounds of Flue-cured leaf annually. There's about 70 or 80 million coming into this country. Our members import part of this, as requested by manufacturers.

Chairman ROSE. That 580 million pounds of export of leaf that you exported, was that in 1980 or 1981?

Mr. KIGER. Well, I'd say in recent years it's averaged about 500 million pounds.

Chairman ROSE. Is that all American exports or do you export some foreign tobaccos as well?

Mr. KIGER. That 500 million pounds represents exports by members of U.S. leaf.

Chairman ROSE. Do any of your members export foreign leaf?

Mr. KIGER. Yes.

Chairman ROSE. When they export American leaf, is it 100 percent American leaf that they export or do they ever mix any foreign leaf in with American leaf and export that as American leaf?

Mr. KIGER. I am not—I don't know the details of how each member ships tobacco out, but I would say, generally speaking, that as tobacco is shipped out of this country, it is shipped primarily as U.S. leaf.

Chairman ROSE. "Primarily."

Mr. KIGER. You do have this. Cigarettes are shipped out of the country. It's a blend of U.S. leaf and foreign leaf.

Chairman ROSE. I'm glad everybody brought their constituents with them today. I really think that's fine.

Mr. Kiger, down in Florence yesterday, your representative who works with Dibrell Bros. responded to a question that I asked him about tobacco auction sales. And, I told him had he ever heard of buyers having particular auction sales, independent leaf dealer-buyers—let's say there are six, seven, eight buyers on one particular sale—had he ever heard of various of those buyers having orders in their pockets for the same ultimate consumer. In other words, ultimate buyers being represented by more than one or two buyers—ultimate customers being represented by more than one or two buyers at a sale. And, he said "yes."

Are you aware of that practice?

Mr. KIGER. Yes. Generally speaking, foreign customers will generally place orders by belts. You may have some overlapping. It probably wouldn't be extensive, though.

Chairman ROSE. Let me say to you, I think that the mixing of foreign tobacco with American tobacco and exporting it as American tobacco is a very serious problem. I also think that the practice of buyers on the tobacco sales representing the same customer—in other words, if they're representing company X, that two or three of those buyers on the sale are both representing company X, I think that should be illegal. And, I wish there was a way we could stop that. But, you know——

Mr. **Kiger**. It would appear to me you would have more competition, rather than less, if you had more buyers on the market.

Chairman **Rose**. That's exactly what the gentleman said in Florence. But, it occurs to me, having watched tobacco sales, that there is a sort of informal rotation of the piles, you know. And, I don't believe that adds to your competition.

Let me get it straight. There is no more free ride for anybody in this tobacco program, and the tobacco leaf dealers had better understand that they have got to participate with us in the politics of this system; they've got to understand better the problems that Mr. Howes talked about here today. I was never more upset in my whole career in tobacco politics as I was to find out that you were in Congress last October giving Congressman Paul Findley proposed amendments to the tobacco price-support program. And, I resent that; and I want to get it out here in public. And, I apologize to my colleagues for doing it.

If we don't learn to work together and get down and figure out a common ground among us—as dealers, as producers, as companies, as politicians, as warehousemen—our whole industry is done; and the sooner we do it, the better.

Mr. **Kiger**. Let me mention this, Mr. Rose. With respect to Mr. Findley, let me say to you, you must have been dealing with secondhand information; because your statement is not correct.

Chairman **Rose**. You didn't have your own amendments to the tobacco support program?

Mr. **Kiger**. I did not initiate a meeting with those gentlemen. They asked to see me.

Chairman **Rose**. And, you went?

Mr. **Kiger**. I talked with them. Mr. Shamansky's only interest was in killing the program. We had no interest in that whatsoever. He had no interest in anything that we had to offer. Mr. Findley had an amendment which was modified by the Foley amendment. He had no interest in anything we had to offer. We called on practically every key Member of the House and the Senate to encourage them to support the tobacco program and indicated our views on the tobacco program and talked to members of your staff, also.

Chairman **Rose**. I apologize if that was wrong information, but I do know we didn't have any contact with you before those members did and that the amendments that you had in my opinion, would have been very detrimental to our tobacco farmers. I hope that at some early convenient time we can solve these matters together.

Mr. **Kiger**. I'll be glad to work with you.

Mr. **Wampler**. Dr. Kiger, you perhaps heard the recommendations of the North Carolina Farm Bureau Federation as presented by Mr. Sledge. Number six of those recommendations on page 4 of his statement reads as follows:

> We recommend that all domestic and foreign buyers be allowed to buy direct from our flue-cured tobacco stabilization corporation.

Following up an earlier line of questioning, you said you would oppose that so long as stabilization was receiving from the Commodity Credit Corporation any funds to implement the price support program. Is that correct?

Mr. KIGER. That is correct, as long as it functions in effect as an arm of the Government.

Mr. WAMPLER. And, if for example stabilization should go elsewhere to seek its advance of funds to carry out the price support program—for example, if they would go to the bank or cooperatives or some other organization to borrow their money—then would you feel like they should have equal access?

Mr. KIGER. I was going to say, if they deal as a completely free enterprise institution, we would have no objection to that.

Mr. WAMPLER. Thank you, sir.

The CHAIRMAN. Thank you very much, gentlemen.

You have been sitting for about 2 hours. Why don't we take about a 5-minute break and stretch for legs just a second.

[Thereon, there was a brief recess.]

The CHAIRMAN. The committee will come to order. Ladies and gentlemen, if we can get started, I want to reiterate that I want to hear—I know Charlie Rose does—from the farmers. The quicker we get started and go through these scheduled witnesses, the earlier we can depart from this place, as the scripture says.

Kirk Wayne of Tobacco Associates, Inc. Mr. Wayne is president of Tobacco Associates, and we welcome both of you gentlemen here today. You may proceed.

Let's have 1 more minute while people get to their seats. I think Charlie and I have the only place in the auditorium where we cannot hear.

Let me say again, I appreciate the patience and indulgence of the audience. You may proceed.

STATEMENT OF KIRK WAYNE, PRESIDENT, TOBACCO ASSOCIATES, INC., ACCOMPANIED BY BRUCE FLYE

Mr. WAYNE. Thank you, Senator. Tobacco Associates is headquartered at 1101 17th Street in Washington, D.C. Other offices are maintained in Raleigh N.C., and Dillon, S.C. Bruce Flye of Battleboro, N.C., chairman of the board of directors of Tobacco Associates, is accompanying me here today. Tobacco Associates was organized in 1947 and is financially supported by the tobacco growers of the five Flue-cured tobacco-producing States. The main purpose of the organization is to represent U.S. Flue-cured tobacco growers in promoting, developing, and expanding world markets for U.S. Flue-cured tobacco. Consequently, our activities in foreign operations vary and have extended to most corners of the globe.

We wish to commend you, Mr. Chairman, Mr. Rose, and members of your committees, for your diligent efforts in preserving a sound tobacco program. In our view, the export market will continue to be the difference between profit and loss for U.S. tobacco growers. Maintenance of a sound tobacco program is vital in fostering this all-important export market. Stability is the key factor. The importance of a stable supply of adequate quantities of quality leaf cannot be over-stated. I wish to briefly outline several factors currently developing in the international tobacco industry that intensify the importance of the United States being a stable, dependable supplier of tobacco.

Foreign cigarette manufacturers have historically come to the United States to fill their requirements for full-bodied, flavorful tobacco; and in so doing, have been willing to pay for premium quality tobacco. In recent years, the U.S. domestic cigarette manufacturers have adopted the practice of purchasing a portion of their filler tobacco requirements from other countries where cheap resources are available.

Imports of Flue-cured tobacco into the United States during the 1980–81 season are estimated by USDA to be 16 percent of the total Flue-cured used to manufacture American cigarettes. Past production quotas in the United States have been based on a total world supply of Flue-cured tobacco. There has been no distinction made between the world supply of the full-bodied tobacco and the world supply of filler-type tobacco. Consequently, the system of establishing U.S. production quotas has in recent years produced a less than adequate supply of the full-bodied tobacco and forced many cigarette manufacturers to divert a portion of the normal U.S. tobacco purchases to other sources. Foreign production of Flue-cured tobacco has grown from the 1965–69 average from 2.6 billion pounds to a 1980 level of 3.8 billion pounds. This represents an increase in foreign Flue-cured tobacco production of 45 percent. Over the same period, U.S. Flue-cured production has remained at a relatively constant level, averaging 1.1 billion pounds per year.

The dramatic increase in foreign production of Flue-cured tobacco has been a deliberate move by foreign growers to capture the world market for light-bodied, low-priced, filler-type tobacco. These statistics adequately point out the foreign producers success in this area. Foreign production throughout the world is becoming more closely controlled. There is a high degree of Government involvement in both production and pricing in most major-producing countries. Commercial contracting by private companies is conducted in other countries. U.S. growers must have a tobacco program or be left as the only producers in the world with no stabilizing mechanism to insure supply and price.

Demand for U.S. Flue-cured remains strong for its flavor and aroma characteristics, but not as a filler in the cigarette tube. Requirements for filler tobacco can be supplied by competing tobacco producing nations throughout the world at considerably less cost than similar qualities found in a portion of each U.S. crop.

The market price for U.S. Flue-cured averaged $1.66 a pound in 1981, compared to the per pound market average of 48 cents in India, 45 cents in Brazil, $1.12 in Zimbabwe, 79 cents in Thailand and 91 cents in Malawi. Several factors must be considered when analyzing market prices of foreign production. For, in many instances, input costs such as fertilizer, chemicals, and other supervision practices are paid in advance by tobacco buyers. However, these prices do serve as a good indicator, reflecting the gap between U.S. average market prices and foreign average market prices.

Clearly, superior quality tobacco produced in the United States can and does command a premium price. However, lower quality grades of the filler-type nature face significant competition in terms of price.

The past purchashing power of the foreign customers has been increased by the value of the dollar on world markets. This greatly benefited U.S. imports of all products, including tobacco. As the U.S. Government moves to stabilize the economy, the dollar will undoubtedly strengthen on the world markets. A greater cost squeeze will be placed on foreign cigarette manufacturers, and they will seek ways to reduce input costs. This will have an effect both on U.S. and foreign producers of tobacco, because most tobacco sold in the world is price quoted and sold for dollars. This development will likely cause buyers to be more conscious of the cost-quality ratio of their tobacco purchases.

High interest rates experienced in recent years has triggered a stock-reduction policy by most cigarette manufacturers of the world. Stock reduction policies have placed further strains on market demand for leaf tobacco. It is reasonable to project that interest rates will cause manufacturers' inventories of tobacco to remain at much lower levels than in years past. This will place a greater importance on producing countries' abilities to be a consistent, dependable supplier of adequate quantities of leaf tobacco.

Cigarette sales worldwide are currently growing at a low rate of approximately 2 percent per year. Leaf utilization is growing at a lesser rate of 1 percent per year. Through the use of advanced technology, the amount of tobacco required to manufacture a pack of cigarettes for the United States has fallen more than 1 percent per year for the past 20 years. Worldwide spread of similar advanced technology in cigarette manufacturing can be expected to further reduce world leaf utilization rates, thus heightening the competition U.S. growers will face in world market. A stabilizing, responsive tobacco program that provides a dependable adequate supply of the types of tobacco in demand will be necessary for U.S. growers to effectively compete in today's limited and highly competitive world market. Tobacco's net contribution to the U.S. balance of trade in 1982 will reach approximately $2.4 billion. Within that amount is the export sales of nearly 6 of every 10 acres of tobacco produced in the Flue-cured area. For the financial success of U.S. tobacco growers and the betterment of our Nation as a whole, progress must be made in the export market.

We appreciate the opportunity to express our views and would be pleased to answer any questions you may have.

The CHAIRMAN. Mr. Wayne, your statement is very fine. I am delighted that you drew attention to the volatility of the dollar. I happen to sit, practically speaking, as the ranking Republican on the Foreign Relations Committee, as well as being Chairman of the Senate Agriculture Committee. I listen very carefully every morning to where the dollar stands, because it does make a difference. Most Americans say "so what?" If the dollar climbed versus the yen, the German mark, the pound or whatever. But, this is a treacherous thing that we have to watch very carefully. Let me ask you your opinion—maybe this is not a fair question, but what is your reaction to the proposals as identified by John Sledge?

Mr. WAYNE. Mr. Chairman, Tobacco Associates is made up of the farm organizations in the Flue-cured area. And, we have an obligation to you under these circumstances to bring to your attention the matters we deem of concern in the area of international trade. However, those organizations who make up ours are the ones that make specific proposals on program policy. We do not engage in that activity in our organization.

The CHAIRMAN. I had a notion that you would want to withhold on that. I had certainly understand that.

Bruce, do you have any comments?

Mr. FLYE. Yes, sir. I have just one thing I'd like to mention. When we talk about the price of tobacco—and surely we must be conscious of it, and we must try to compete and maintain a decent profit. But, in competing in the world over, we look at Brazil, one of our competitors. They are under the most-favorable-nations status going into our European Community market, which is our largest market. And they go in at a half-tariff rate. Zimbabwe has been mentioned by Great Britain as being one of our larger customers years ago. They are a former colony of Great Britain and therefore, their tobacco goes in tariff free in the European Community market in Great Britain, which along with their cheap labor, gives them a price advantage. And, some of our competition is subsidized, such as Italy. We imported 18 million pounds of tobacco from Italy last year. This is subsidized by the European Community. The South Korean growers receive more money for the tobacco than it is sold for in this country.

What I'm trying to say, we need to stay price conscious; and we want to be competitive. I wouldnt' want to lead these growers to believe that slashing the price is the answer to all the problems, because it isn't.

The CHAIRMAN. Charlie?

Chairman ROSE. I've had the pleasure of hearing Mr. Wayne and his associates on other occasions. So, I'm not going to ask you any questions. I just want to say for the record that wherever I go I am constantly confronted with good news about Tobacco Associates, the fact that they are doing a good job for the money that they take from our tobacco farmers in the form of a checkoff program. And, from what I can tell, you are good stewards of that money; and I hope you keep up the good work.

The CHAIRMAN. Thank you very much, gentlemen.

Lionel S. Edwards, manager-director of the Bright Belt Warehouse Association. You can come forward, sir.

STATEMENT OF LIONEL S. EDWARDS, MANAGING DIRECTOR, BRIGHT BELT WAREHOUSE ASSOCIATION, INC.

Mr. EDWARDS. Thank you, Mr. Chairman. Mr. Chairman, the Bright Belt Warehouse Association is made up of 260 Flue-cured tobacco auction warehouse firms, located in the States of Florida, Georgia, Virginia, and North Carolina. Approximately 80 percent of the Flue-cured crop is sold in Bright Belt affiliated warehouses annually, with the remaining 20 percent—most of the remaining 20 percent sold in warehouses in South Carolina. The operation of tobacco warehouses at the present time requires an investment of several hundred thousand dollars. Therefore, our members have a personal interest in maintaining the tobacco program, as their main source of income is directly related to the amount of money the producer receives for his crop.

Tobacco warehousemen talk face to face with all tobacco growers several times each year. By this, we mean that, as a group, tobacco warehousemen are in contact with 100 percent of the farmers in these four States. We believe that we are in one of the best positions of any of the organizations to know the sentiments of the tobacco producers. From these contacts, we have come to the conclusion that the most serious problems currently facing the tobacco program are, No. 1, the number of absentee farmers—and we are referring to those farmers who consistently lease their quota—the high cost of leasing quotas and the rapidly escalating price support in relation to the world price of tobacco. In view of these facts, we offer the following recommendations for your consideration.

No. 1, we recommend the continuation of the quota and price support system for Flue-cured tobacco. No. 2, we recommend that tobacco continue to be treated as separate legislation, rather than become consolidated in the general farm program. No. 3, we recommend the continuation of the present lease-and-transfer program; and we approve of a provision requiring the allotment to be planted on the original farm 1 out of 3 years, beginning with the 1983 crop. We further recommend that this regulation supersede present ASCS regulations which permit the combination of two or more farms to operate as one unit. We also recommend that farms with less than 2,000 pounds quota be exempt from this provision. No. 4, we recommend that USDA retain the present price support formula in the law but amend the law to specify that, for Flue-cured tobacco, not less than 50, nor more than 65 percent of the increase provided by the present order be added to the price support beginning with the year of 1982.

No. 5, we recommend the sale of tobacco allotments within the county and purchases in allotments owned should not exceed 50 percent of the tillable cropland. No. 6, we recommend that any net gain realized by the sale of tobacco by stabilization corporation be retained and used, if necessary, to offset losses from future sales. We pledge our support and assistance to any farmer-approved plan to make stabilization self-supporting. No. 7, we recommend that all nonquota tobacco grown in a quota-producing area be charged against the farmer's quota.

No. 8, we urge strict enforcement of the laws which dictate farmer-to-farmer leasing of tobacco allotment and eliminating the middle man in the process. No. 9, we recommend that all farm poundage and acreage be adjusted every 5 years, based on current production levels; and if this could not be adopted universally, we recommend that individual farms be adjusted upon request of the farmer.

Mr. Chairman, we realize that these recommendations will not cure all of the ailments of our industry overnight. But, we sincerely believe that, if adopted, these policy changes would, over a period of 2 or 3 years, remove the major problems now facing the program without causing any grave inconvenience or hardship or upheaval to the producer, the warehousemen, or the buying entities.

In closing, Mr. Chairman, we would like to express our appreciation to you for scheduling these hearings. We also want to thank you, Congressman Rose and all your colleagues, for your valiant battle fought last fall in continuing our program.

The CHAIRMAN. Mr. Edwards, thank you very much for an excellent statement. It is now a part of the record. We appreciate the contribution you have made.

Mr. **Edwards**. Thank you, sir.

The **Chairman**. Now comes the part of the program which I was waiting for, to hear from the farmers. Suppose we play it by ear and have six, maybe two from this section, two from this section, and two from this section, and two from that—the first six who get up here. You win or lose as the case may be.

We have nine. That's pretty close. Well, it's now 4 o'clock, but I want you to say what's in your heart and on your mind. So, why don't we start with the lady; and you pass the microphone down there.

STATEMENT OF FAYLENE WHITAKER, RANDOLPH COUNTY TOBACCO CLUB, CLIMAX, N.C.

Ms. **Whitaker**. I won't take very long. This is from the Randolph County Tobacco Club. We would like to take the allotments away from everyone, redistribute within the same counties to the active growers, based on 80 percent of their average for the last 3 years; pool any remaining allotments at the county ASCS offices for new growers. They apply for and have to go for 3 years before receiving this allotment; revalue each grower every 3 years; and when a grower quits, his allotment would go back into the pool to be redistributed among growers or new growers, thus it would always stay in the hands of the grower. Never would it be leased again. If this comes to this, the lease prices would be taken away, giving us—we could come down on our prices in the support price and compete with foreign markets to sell with them. Also, we would go along with farmers supporting this tobacco support program; but we want the provision in there that somehow all the tobacco that Stabilization now owns will not be unloaded at one time, overflooding the market. Thank you.

The **Chairman**. Thank you. Would you give your name and address?

Ms. **Whitaker**. OK. I am Faylene Whitaker. and I am at Route 1, Climax.

The **Chairman**. All right, sir, if you will give your name and address and proceed.

STATEMENT OF DONNIE LASSITER, FARMER, SELMA, N.C.

Mr. **Lassiter**. I am Donnie Lassiter, a Johnston County tobacco farmer; and I would like to encourage you and the other committee members, if you would, please, to listen to the comments that have been made by the farmers today. I think it was a good show of support for Mr. Howes and the other farmer from Wake County on their comments; and I'm sure there will be some opposition about taking the allotments away from people that have not had it planted on their farms in the last 3 years. But, I would like to say again that these people have been paid, I think, very well, especially in our county, for their allotments. Many times, this year in particular, we have had prices of 60 and 70 cents per pound; and I think this is adequate pay, considering the number of years that they have had it. The one opposition to this is that people possibly who have bought these farms in the last 2 or 3 years, what will they do? I would like to say that I think there could be a committee, maybe through the ASCS made up of at least 50 percent of true tobacco producers that these people could come before if they had any complaints or any grievances about this being done to them; and this committee could hear their grievances and then act whatever was necessary.

The CHAIRMAN. Thank you, sir.

STATEMENT OF LANDON E. OAKES, CHATHAM, VA.

Mr. OAKES. My name is Landon Oakes. I'm a farmer from the State of Virginia. I have tried to take an unbiased position relative to the problem of transferring the program back to its original intent and that is getting the tobacco into the hands of people who make their living out of tobacco. And, in trying to recognize the problems of transferring great accumulated wealth in the form of tobacco allotments, I would like to ask the committee to consider rearranging the priorities of the tobacco program and putting the man first, the allotment in the middle, and the land last. As it is now, the land comes first, the allotment second, and the man last. I would like for you to give consideration to that. And, the way I think it could possibly be done with a minimum of political disturbance and with fairness to all parties and with an opportunity for those people that have a livelihood and an opportunity to gain from the support program of controlled commodities. This tobacco allotment needs to get back to it. And, I refer to this as an orderly plan for tobacco allotment transfer. First, I would permit the sale of the entire allotment or any portion above 10 percent to willing tobacco growers at a mutually agreed compensation.

Second, I would go further than that. I would continue to permit the leasing to continue as it is presently, with some modifications directed to correct speculated abuses now being practiced under these conditions: That 10 percent of the poundage leased becomes the property of the lessor and that rate of attrition continue until the leasing party's remaining poundage is reduced by 90 percent, and that the remaining balance of the allotment be transferred on the date of the final transaction. This would give the present production segment adequate time and opportunity to work out the necessary financing and to spread the risk of the purchase of an intangible asset of considerable value over a period long enough to greatly reduce the hardship of adjustment necessary on the part of both the seller and buyer of these allotments. By reducing the risk associated with the purchase and transfer of this allotment, the present owners of these allotments interest is respected and his compensation continues for up to 10 years which, in effect, can be interpreted as a willingness on the part of the purchaser to share in the fruits of the controlled and supported market with the seller.

I believe that such a plan would generate the maximum of sharing from the seller and minimize the risk for the continuing tobacco producer.

The CHAIRMAN. Thank you, sir.

STATEMENT OF LEO L. MATTHEWS, FUQUAY-VARINA, N.C.

Mr. MATTHEWS. Mr. Chairman, I'm Leo Matthews from Fuquay-Varina. I'm a farmer, merchant, and a tobaccoist. First, I would like to thank all of you gentlemen for the battle which you fought for us in October in saving the tobacco program. We do have a tobacco program at the present time to discuss. I think that this is a real important fact in the fact that we do have time before another crop to correct some of the problems that we have now. I think that during the years we have been talked about as subsidy, and that's been dwelled on here today and I will not make a great deal of comment on it. But, it's a poor financial statement that slows all the liabilities and doesn't cover any assets; and this is all that I've ever seen come out of the opposition with regard to our tobacco program.

I think all of us realize that through taxation and the employment that is generated through the tobacco industry that we are paying a great deal for the price of the tobacco program at the present time. I remember when the program came in, and we started the allotment programs in 1934 and it went out in 1939. And, I know what that meant, too. And, since that time, we have been blessed to have a program that we can control and operate on a beneficial basis.

One thing that I would like to initiate that I have heard mentioned here today—and I do not want to take any allotment away from any individual: race, creed, or color. I do feel that the corporations that develop the lands and such that are not in the position to participate should be given some legal means to dispose of his allotments. We well realize that this would help the situation.

Also, I heard here today and I have read it in the paper, in following this thing very closely, that the recommendations for any cost be taken out at the marketplace. I'm involved in the tobacco warehouse operation. I have no resentment in taking out the charges for the betterment of tobacco or anything else. But, the funds will not be coming from the right place when it is taken out totally from the producer. Any charges that it takes, cost, that is involved to save the tobacco program should be placed on the allotment. The people that are leasing these allotments should have to pay the rate per pound that it takes to save the program; because if we do not operate on this basis, we are not going to have a program. And, if they are old and cannot operate, they have my sympathy; and I still think they should have an allotment, but they should contribute toward the financial support of saving of the tobacco program. We've heard a great deal here today about undesirable portions of the plant. I have my feelings about that a great deal, in the fact that a lot of this could be solved if we could get more participation in the four-leaf program. I personally have participated in it for 3 years. It is practical financially to participate in this. I do not get enthused over trying to produce something that is being downgraded the whole year before I get it to the market. So, I think if this could be emphasized and we could prevail with more people to participate in it, it would reduce the amount of undesirable tobaccos that are offered for sale.

Thank you very much.

The CHAIRMAN. Thank you, sir.

STATEMENT OF S. WARD FINNEY, PENHOOK, VA.

Mr. FINNEY. My name is S. Ward Finney. I am a full-time farmer. I own and operate a 355-acre farm in Franklin County, Virginia. My based Flue-cured tobacco allotment for 1982, is 4.36 acres and 8,476 pounds. For the past 5 years, my two sons and myself have been growing about 20 acres of Flue-cured tobacco. I represent the officers and membership of the Virginia Association of Farm Elected Committeemen of which I am now serving as vice president.

Mr. Chairman, we as producers of Flue-cured tobacco have been very fortunate to have been a part of the Federal program, that has not only served the producer well over the years, but warehousemen and the manufacturers as well by making the necessary adjustments to produce and market an orderly supply of Flue-cured tobacco for domestic and export uses.

In Virginia in 1981, there were 22,000 farms with Flue-cured allotment. In the same year, there were 8,400 farms that grew and produced the total Flue-cured tobaccco. A recent USDA survey showed that 84 percent of the growers of Flue-cured tobacco rented part or all the quota that they produced, while only 16 percent owned all the quota they produced.

These and several other pressing problems need some adjustments. In order to insure the operation of the Flue-cured tobacco price support program on a no loss basis to CCC, we recommend the implementation of the growers' assessment program over a period of years; permit allotment holders to sell their allotments with the county; the purchased allotment and the allotment owned shall not exceed 50 percent of the farmed tillable cropland; and that only holders of allotment be permitted to purchase additional allotment. This transfer of allotment should be done over a period of years. Authorize the U.S. Secretary of Agriculture to take the necessary action in regard to rapid spiraling in the price support formula of Flue-cured tobacco and this rate of escalation be reduced in an acceptable and reasonable manner; that fall leasing be eliminated.

Thank you, Mr. Chairman, for allowing me to present this testimony.

The CHAIRMAN. It's the other way around. We thank you, sir.

STATEMENT OF LONNIE KNOTT, WENDELL, N.C.

Mr. KNOTT. Thank God for the North Carolina Congressmen and the tobacco program. You young farmers may not know, but in 1933 my daddy stopped sales in Wendell because they were stealing the tobacco, and that was the start of the tobacco program. I haven't seen anything stolen since until I grew some Maryland-type tobacco this year, and I can tell you what happened to it.

Gentlemen, we have a fine program. There have been things in it that we didn't always like. For example, who is the producer? Is he that guy riding around in a pickup truck with two shotguns in the back and twenty Mexicans out there doing the work? If you're going to give the money to the man who sweats, the Mexicans would have the allotments. Or, are you going to do it the other way? Are you going to let a guy go out here and take his farm, sell his house, his packhouse, his strip room, all of his equipment, even tear down the homestead, put up a shopping center; and the only untouchable in it is his allotment?

Now, friends, I have given you two extremes. Let's not nit-pick over this thing, because we've got a program and we want to keep it.

My father tried a program in the middle 1920's. They called it the tri-state tobacco pool, and I couldn't help but think about it when you were talking about your stablization going in the tobacco business. Divorce the government, and you will see Mr. Kiger clobber you. You hear how well he was willing to agree to it. My friends, we need to all pull together and let's not nit-pick this program. Let's keep it.

The CHAIRMAN. Would the gentleman give his name and address for the record?

Mr. KNOTT. Lonnie Knott from Wendell.

STATEMENT OF KENDALL HILL, KINSTON, N.C.

Mr. HILL. Kendall Hill is my name. I'm from Kinston in Lenoir county. We raise tobacco, corn, sweet potatoes, soybeans, most anything else that we can make a dollar out of. We all know where we have come from in the tobacco program, as this gentleman just spoke of; and we all know where we are today. We're in trouble. We hear an awful lot of talk. Just a while ago, Congressman Rose spoke of being unified. You know what being unified is? Being unified is a grower down in eastern North Carolina trying to rent tobacco allotment and come to find out that the warehouses have rented it all up and they are wheeling and dealing. Being unified is not agreeing with everything that the Farm Bureau has to say, if you are a grower and want to express your own opinion. Another example of unification is having input in trying to get a good program going to alleviate the stabilization's down-stalk problem, such as this four—down-stalk problem, rather, that we cultivate tobacco, down-stalk tobacco, getting a four-leaf program created; and then have primings from farmers that don't participate go to the warehouse floor and bring home almost as much money by companies that seem to be wanting to undermine the four-leaf program. All of that is in the realm of unity.

Where do we go from here? The Farm Bureau, Dr. Kiger, and other people all have ideas of where we go. This is February 12. I think most everybody in North Carolina has paid their lease. They have got money in this crop. They have got their plantbeds, the majority of the people have them seeded. We don't know what our gas bills and oil bills and everything are going to cost us for 1982. I feel that trying to implement any changes for the 1982 crop, other than an announcement for 1983, is going to hurt a lot of people. I would like to suggest that we freeze the price support formula at the 1982 level for the 1983 crop. That will give us time to sit down and really get our act together, really get unified, and go forward; because if we come up and change the rules of this game now, there might be a lot more FHA sales this fall of 1982 than there was in 1981. We know we have to change. There is no denying that. Dr. Kiger and his group want us to raise a lot more tobacco at a lower price, but we can't get there from here. We cannot do that unless we make a lot of changes, We cannot take less money for our tobacco until we reduce some of our costs. It's just simply not good arithmetic.

A good example of what I'm talking about, the rushing into things, in 1974 stabilization had very little tobacco on hand. They were almost at a point of having to lay off employees. If I'm not mistaken, Secretary of Agriculture at that time was Mr. Butz. He was persuaded to get away from the formula that we had for establishing the quota, and we had 3 years of consecutive quota allotment increases. That was the beginning of stabilization's problems. If you will look in your "Tobacco Outlook and Situation" booklet that is printed from the USDA, you will find that in 1974 stabilization had very little tobacco. They took in very little tobacco. In 1975, they went way up; and in 1976 and 1977, the same thing. Because, the Secretary of Agriculture was misinformed by people wanting to better their position in this tobacco industry.

I buy a lot of materials for our farm, and I try to buy as cheap as I possibly can buy. And, I sell sweet potatoes all over the country; and there have been times when I'm the only fellow in the United States with sweet potatoes. And, I'm in the same position then that tobacco companies are. I get every penny for my product that I can. Everybody wants to buy cheap and sell high. The tobacco companies have their business to run; the farmer has his business to run. We cannot be the scapegoat. The producer cannot be the scapegoat in every situation when there is change needed to be made. And, the vast majority of the farmers will agree that changes need to be made; but the farmer cannot always be the scapegoat of these changes and survive. And, if the farmer does not survive, there's not going to be a tobacco industry.

Senator East, when he was here, asked a question to one of the gentlemen about nesting. Nesting is not a problem of anybody's except the tobacco companies. There's a law on the books to deal with it. It's a simple solution. If a tobacco company gets a pile of nested tobacco in their factory, send it back to the warehouse. The warehouse charges it back to the farmer, and that's it. There's no nested tobacco being sold.

But, what happens in reality, they will offer 15 to 20 cents a pound less for the tobacco. They buy it at a bargain. The farmer is happy because he thinks he's pulled something over the tobacco company, and both of them think they are well off. So, you know, why make a big deal out of a situation that the tobacco companies can remedy very easily and very quickly, just by sending—the warehousemen are not going to do it. They're not going to offend their customers by saying, "You've got nested tobacco." It's entirely up to the companies.

Our problems aren't so big that they cannot be overcome, but let's do not get unified at the expense of the tobacco producers. Thank you.

The CHAIRMAN. Thank you, sir.

STATEMENT OF JERRY W. BATTEN, CLARKTON, N.C.

Mr. BATTEN. My name is Jerry Batten. I'm from Columbus County. I was a peanut farmer. I hate to be the red-headed stepchild at this hearing today, but there are certain things that I would like to bring to light as to what my views are on how the peanut program has evolved and what might be the situation with the tobacco industry. Several disturbing facts have brought me here today—the first being the peanut farm bill of 1982–85. I am well aware that this is not a peanut hearing, but it does lead to what I have to say—more specifically, my situation, where in the past I have farmed on the average of 215 acres per year for the past 12 years, I am sure by now that most of you are aware of the present bill. Whether you knew exactly what you voted for or not, I'm not sure.

I say this because in the referendum which was held in our county, at which 210 votes were cast of the 352 allotments holders. Two hundred and ninety-three of these 352 allotments holders had already lost their allotments; yet, of the 210 ballots cast, 194 votes were cast in favor of the peanut bill and only 16 votes against it. I ask you, what do you think they were voting for? They had already lost their allotment. I say they were voting for any kind of a program, peanut program, even though they were martyrs in the situation and wanting to keep a tobacco program in Columbus County, as well.

I know that the bill was to reduce the amount of quota peanuts from 1.44 million tons to 1.2 million tons and on down to 1.1 million tons by 1985. I don't question the cut or the amount in the least. I would like to, at this time, read a portion of the interpretation in respects to the cut.

> Beginning with the 1982 marketing year, the reduction in the poundage quota allocated to any State for any marketing year below the poundage quota allocated to subject State for the immediately preceding marketing year shall, insofar as practicable and on such fair and equitable basis as the Secretary may by regulation prescribe, be accomplished by reducing the farm poundage quota for each farm in the State, to the extent that the farm poundage quota has not been produced on the subject farm.

Chairman ROSE. Will the gentleman yield? Will he yield 1 minute?

Mr. BATTEN. Yes.

Chairman ROSE. Since you talked at our hearing in Fairmont, I have looked into the continuing saga that we have been through and only this afternoon did the Secretary of Agriculture send a wire out to all ASCS offices that handle peanuts and tell them to hold everything until we get with him next week to have a discussion about how this was interpreted. So, you just go right ahead with your statement. You were heard loud and clear in Fairmont, and many other peanut farmers from northeastern North Carolina and from Virginia have talked to us. I'm not saying we have a solution to your problem, but what has been put out is on hold until we—because our intention in the conference was that the allotment that has to be reduced be taken first from nonproducers. And, we're going to have to have some more discussions with Agriculture to see how they interpreted that.

So, go ahead, but just remember, you got some results in what you said in Fairmont.

Mr. BATTEN. Thank you, sir.

Gentlemen, this practicable, fair and equitable basis has put me out of the peanut business. Of the 237 acres that I had last year, I will under the present interpretation of the peanut bill have only 35 acres remaining to tend with quota and price support. Of the 1,250 acres in Columbus County, only 350 to 400 acres will remain, a reduction of 82 percent at a cost of approximately $2 million to Columbus County in rent, wages, taxes, net earnings, earnings in farm oriented businesses. I have looked at this situation since January 9. From the facts I have now, my desire and ambition to farm, my only alternative would be to raise tobacco in order to repay loans for my initial investment and drought years of 1977 and 1980 have a prayer of a chance of making a decent living.

Learning that most of the tobacco in our area was either rented or obligated, I felt that it would be best to postpone my involvement in tobacco for at least 1 year and just hope to tread water, growing corn, soybeans, and what few peanuts remained in my immediate area. In trying to get into the flow of the present-day operation of tobacco and after being involved so closely with the way the peanut bill evolved, my feeling for any kind of farming seems rather remote. I expect that confusion is the best way I've been able to classify my situation. But, I asked myself several questions. What was the intention of the opposition of the peanut bill? Was it their intention to put the allotments in the hands of producers or to do away with allotments at any expense? Will the same thing happen to the tobacco program as with the peanut program? What is the intent of the opposition of the tobacco program? If the same rules were to be applied, where would I be then? In 1981, there were 4,853 allotments in Columbus County. Of that total, 3,025 allotments were leased away from the farmers and 1,356 farms received the 3,025 allotments. Only 472 farms with allotments neither leased away or transferred allotments to their farms.

Gentlemen, I think you can see that, from the same rule—if the same rules were to be used to implement a reduction in tobacco quotas, the effect on Columbus County's tobacco program would not be the mere $2 million as in the case of the peanuts in the county, but closer to $23 million. And, I give you figures simply from cash rent and from gross sales.

Personally, and under the existing situation with peanuts, I may be better off without any peanut program; because as it is now, I do not have a chance of competing any more with the major growing areas. I'm not only concerned about my county, but Bladen County as well, where 39 percent of the quotas will be lost. What's of more concern, too, is the fact that we may lose our markets as well; and, gentlemen, if you don't have anywhere to sell anything, there's no need to grow it.

Gentlemen, I hope you get the idea of what I'm trying to say. I'm not saying what has been done is completely wrong. The way it has been implemented is. We, the peanut and tobacco producers of the counties and State, have been led to believe that, by leasing and transferring, that our allotments were protected as well as those that tended on the farms with the allotments themselves. This radical change in policy could ruin many farming operations in our State and destroy our trust in electing Representatives and Senators.

I have no idea how many people here today are affected as I am, but if the same thing happens with the tobacco program, where so many more farmers are affected personally and financially, I assure you that the next hearing will not be as pleasant as it is today. In the brief time that you have given me, it is impossible to arrive at a program that will satisfy everyone; and you probably wouldn't be able to if you waited for the second coming. I hope that I have made the point that I wanted to make. There is no way that you will be able to make practicable and fair decisions without the facts, without the facts that presently exist. This is where, I think, the peanut bill went astray. This is where the peanut referendum was unjust. I am not asking that you take each individual case into account, but several counties, the entire counties—

Columbus, Bladen, Sampson, Pender, and Greene Counties in North Carolina are involved in drastic cuts in peanuts, of which I am aware. I don't know about other States. I am asking that you involve more farmers directly into your decisionmaking in some way. If a buck has to be passed, I would feel much better knowing that it had been passed by a farmer, a producing farmer. Thank you.

The CHAIRMAN. Thank you, sir.

Mr. WHITFIELD. Mr. Chairman, I feel kind of unusual calling you by this name. In talking to Chub Seawell a lot of times, he always refers to you as Cousin Jesse. I can't get used to this new name everybody has been giving you today.

The CHAIRMAN. Glad to have you here, cousin.

STATEMENT OF ALEC WHITFIELD, TIMBERLAKE, N.C.

Mr. WHITFIELD. My name is Alec Whitfield, and I'm from Person County. And, you know, back in Person County, I think that's where the tobacco business started. So, I have been growing tobacco all of my life and even my ancestors back to 1700 were in the tobacco business. So, in listening to a lot of proposals that have been brought forth today, I think some of the best ones have been brought forth by the growers. Can I get an "amen" to that?

The CHAIRMAN. Amen.

Mr. WHITFIELD. In my area, 99 percent of the farmers I believe are tenant farmers; and by that, I mean they lease tobacco and they are in bad shape. I've been growing tobacco all of my life, and I tell you, I believe the farmers are in worse shape today than I've ever seen them in, in my lifetime. I think we need a program that will somehow or other give the growers some kind of relief. The growers are the foundation of this program. That's where the buck starts, is in the growers' hands. He has more legmen and more money and more everything in the crop than everybody else. If we can get a program geared to give the growers some relief, I think things will be in a whole lot better shape. If the growers could somehow or other get the allotment to flow back into our hands and control the allotment and let the growers have it, I don't think we'd need the program.

We mentioned sometime today about the young farmers getting into this program. About 30 years ago, I had started as a tenant farmer; and the Government had an FHA program then that, for qualified people, you could buy a farm at 3 percent interest. I don't see why something like that couldn't come back into effect today, because there are a lot of young farmers that are going to need to start farming, young boys who would like to start farming like myself. We can send money overseas to a lot of these countries at 6 percent, like I know the Government does. I don't see why we can't lend some to our young farmers at 6 percent interest.

A lot of people talk about what the old people are going to do without the allotment if they have to lose it. Well, when I get old, I hope I can just be in a position that I don't want to hold onto mine. I'd be willing to let somebody have it that needs it. In fact, if the farmers don't get some relief soon, I might want to give it up before I get old. I will probably have to give it up. But, let me say in conclusion, that whatever we do from now on, the growers need some relief. That's where we are hurting the worse. Believe me, I know; because I am one. Thank you.

The CHAIRMAN. Thank you very much.

Will you folks agree with me that we have heard a lot of common-sense out of this group here?

Your mention of the loans to foreign countries brings to mind the project that I assigned my people about 4 months ago, back in the fall. There hasn't been a recapituation of the total foreign aid country by country in some years, and it is devilishly hard to get because the State Department doesn't want to release it. You said 6-percent loans to other countries. There are a lot of loans for 2 percent, and I have just about decided it is time we had an American desk down at the State Department in Washington, D.C.

I thank you, lady and gentlemen, for appearing before us and giving us some testimony. Now, we will hear from some more farmers, Donnie Taylor, president of Tobacco Growers Association; Bill Griffin, Buzz Shackelford—if you gentlemen will, come forward.

The staff keeps nudging me about the time, but we came here to listen so you proceed. You give your name and proceed as you will, sir.

STATEMENT OF WILLIAM V. GRIFFIN, FIRST VICE PRESIDENT, TOBACCO GROWERS ASSOCIATION OF NORTH CAROLINA, ACCOMPANIED BY BUZZ SHACKELFORD AND ROY AMMONS

Mr. GRIFFIN. First of all, I would like to say that Donnie Taylor, president of the Tobacco Growers Association, is home walking the floor to either go to the hospital or awaiting to go to the hospital, as his wife is expecting another young tobacco producer for him. He will not be here today.

The CHAIRMAN. He's not the father of his country, but he's working at it.

Mr. GRIFFIN. He may be working harder than most us imagine.

Senator, we'd like—the tobacco growers would like to thank you and the other Congressmen that worked so hard to keep the tobacco where it is and keep it a separate legislation from the farm bill. I would like to introduce the panel that is here. I would like for all the people here to know that all three of them are tobacco producers. I am Bill Griffin, first vice president of Tobacco Growers from Jones County. To my right is Buzz Shackelford from Greene County, a tobacco producer; and to my left is Roy Ammons, a tobacco producer, a burley tobacco producer, from Madison County. I'm not going through with a fancy talk about what our organization is concerned with. We are concerned with keeping the tobacco program and helping to streamline or modernize the tobacco program.

Since we haven't heard anything from the burley end, we have a Burley Committee; and Roy Ammons has worked so hard with it, we want to present his resolution—not resolution, but recommendations—at this time. He has worked very hard, as I said, up in the burley area. We had 400 people at a burley meeting just in Madison County just this past week. These are the proposed changes that he has in the burley tobacco program, and we as an organization are backing his position.

We believe that the burley tobacco program is necessary for the survival of farmers in the burley belt. We further believe that the tobacco program played a very critical part in the American economy. These words are running together, and I forgot to put my glasses on. We recommend that burley—No. 1, we recommend that burley farmers be assessed 2 cents per pound for a 5-year period to finance the burley stabilization program. Farmers would receive stock based on participation.

No. 2, we recommend that the Secretary of Agriculture with the advice of a Producer Advisory Committee be given authority to make adjustments in the price loan level for different grades of tobacco, in order to make such kinds and grades more competitive in domestic and foreign markets and would help achieve the objectives of a no net cost to the taxpayer, other than such administrative expenses as is incidental to the implementation of the program. However, the reduction in the overall price level under current formula shall not exceed 35 percent of the normal increases for any year, as provided for in existing law. It is further recommended that this authority be granted for an initial period of 5 years.

No. 3, we recommend that burley be graded uniformly throughout the marketing season. No. 4, we recommend that the 15,000-pound lease limitations be removed, with no provisions on amount of cropland. No. 5, we recommend that farms owned by the same operators be allowed to market from one unit to another. No. 6, we recommend that foreign countries be allowed to buy directly from stabilization at current prices. No. 7, we recommend that after stabilization is taken out of Government hands, the tobacco program be kept separate from the general farm bill. No. 8, we recommend that all burley reserves be held at county levels. All lost quotas would stay within the county.

No. 9, we recommend that all nonquota tobacco grown in burley-producing counties be charged against burley quota. No. 10, we recommend that burley counties be allowed the right of designation of burley quotas.

These are the 10 proposals for changes in the burley program. The Tobacco Growers Association for the Flue-cured division, we believe the tobacco program to be essential to the economy and well-being of the people of North Carolina. It also plays a very critical part in the American economy. It is for these reasons we oppose any efforts to eliminate or suspend the quota system for Flue-cured tobacco. We offer the following changes in the current tobacco program.

No. 1, that by a per pound assessment, Flue-cured tobacco farmers own and operate the Flue-cured tobacco cooperative stabilization without any cost to the U.S. taxpayers. No. 2, that stabilization be allowed to retain all funds held for members until it becomes self-supporting. No. 3, that allotment holders must own sufficient croplands to plant all their allotments. Any allotment holder not owning sufficient cropland would within 2 years be allowed to sell his allotment within county lines. At the end of this period, any allotment in excess of cropland would go to the county ASCS office for redistribution within that county.

No. 4, that the sale of tobacco allotments be allowed within county lines, as long as the allotments on receiving farms do not exceed 50 percent of the available cropland, with this additional, provided this allotment remained with this farm for 5 years. No. 5, that all nonquota tobacco produced in the Flue-cured counties be charged against Flue-cured quotas. No. 6, that the USDA Secretary of Agriculture, with the advice of a producer advisory committee, be given the authority to adjust the price loan level for different grades of tobacco, in order to make such grades more competitive in domestic and foreign markets and help achieve the objective of a no net cost to the taxpayers, other than such administrative expenses as are incidental to the implementation of the program. However, the reduction in overall price loans under the current formula shall not exceed 35 percent of the normal increases for any year, provided for under the existing law. It is further recommended that this authority be granted for the initial period of 5 years.

No. 7, that spring leasing of any and all quotas be allowed only during the period of January 1 through March 1 of each crop year, and that all fall leasing be allowed only for any farm planting 80 percent of its effective quota. No. 8, we recommend that all individual farm poundage and acreage be adjusted every 5 years, using the past farm history to more realistically reflect per acre production potential.

No. 9, that county ASCS offices be permitted to list tobacco for rent, giving pounds, name, and address only and forbid to list asking price per pound. No. 10, that the current designation and redesignation program be continued, except that the last designation period would not have a 2-week waiting period. No. 11, that stabilization be allowed to sell directly to foreign buyers at current prices. No. 12, that all monetary penalties caused by errors at the warehouse or ASCS not be charged to the farmer, but rather that his quota be reduced the following year. No. 13, that tobacco continue to be under separate legislation and not combined with the general farm program. No. 14, that any administrative or legislative change in the tobacco program be made and announced on or before December 10 of the preceding crop year. No. 15, that tobacco be uniformly graded throughout the marketing season. No. 16, we strongly oppose lease and transfer across county lines.

Mr. Chairman, I would like to read a report of a survey that was conducted here February 3, 4, and 5 and, also, since then, of mail-ins that have come in on a questionnaire that we sent out. It is entitled at the top of the page, "Tobacco Growers Association of North Carolina," and it said, "Please read the following questions and circle 'yes' or 'no.' " These are percentages that I will give you, and they come from several hundred producers. No. 1: Are you satisfied with the current tobacco program? The answers were, 16 percent "yes," 84 percent "no." No. 2: Fall leasing should not be allowed except in cases of certified disaster. The answer was, 61 "yes," 39 "no." No. 3: Do you favor lease and transfer across county lines? The percentage is 20 "yes," 80 "no." No. 4: Should tobacco have to be planted on the farm 1 out of every 3 years? Sixty-four percent said "yes," thirty-six percent said "no." No. 5: Should sales of tobacco allotment be allowed? There were 74 percent "yes," 26 percent "no." No. 6: Should the price support of undesirable grades of tobacco be adjusted? The percentage, 87 percent, "yes," 13 percent, "no." No. 7: Would you support an assessment to finance stabilization? Seventy-six percent "yes," twenty-four percent "no." No. 8: Should stabilization be able to sell direct to foreign buyers? Ninety-six percent, "yes," four percent, "no." No. 9: Would you favor stabilization retaining all funds until they have become self-supporting? Eighty-eight percent "yes," twelve percent "no." No. 10: would you like to be better informed on all matters pertaining to tobacco? Ninety-nine percent "yes," one percent "no." No. 11: Will you support an organization to speak specifically for tobacco growers of North Carolina? Ninety-five percent "yes," five percent "no."

In the essence of time, Mr. Chairman, these are our points we'd like to present.

The **CHAIRMAN**. Thank you very much for an excellent presentation.

Chairman **ROSE**. That is an excellent report, and I want to thank you for the hard work that your organization has done in putting that together. It will be very helpful, and we will look at them.

Mr. **GRIFFIN**. We stand ready to——

The **CHAIRMAN**. Could I just inquire as to how many responses you had on this questionnaire?

Mr. **GRIFFIN**. There were several hundred, and they came from all sections of the State, all geography of the State. And they were the people that would answer the questions.

The **CHAIRMAN**. You have done an immense amount of work.

Mr. **GRIFFIN**. We are continuing the survey, and we will feed back information to you as we receive it.

The **CHAIRMAN**. Fine. Thank you very much.

Now, we go to the old Dominion State of Virginia—Jerry Marston. You are a very patient man. You have been here all day.

Mr. **MARSTON**. I am going to take as little time as I can, because I'd like to have some of these farmers up here talking.

The **CHAIRMAN**. Well, we are delighted to hear from you.

STATEMENT OF JERRY MARSTON, PRESIDENT, VIRGINIA AMERICAN AGRICULTURE MOVEMENT, LAWRENCEVILLE, VA.

Mr. **MARSTON**. I think the proposals that I brought from the American Agricultural Movement—actually, we support the Tobacco Growers Association recommendations just proposed to you. First of all, I would like to say that I myself am a farmer. I am not just here representing the American Agricultural Movement. But, on our proposal about allotment owners mostly—must own sufficient cropland—we, in our county, have a prison system that owns tobacco allotment. We also have a county, the county itself owns tobacco allotment. This is something that should not be. On No. 5, that all nonquota tobacco produced in Flue-cured counties be charged against Flue-cured quotas, I think this should be. No. 15, the only change that we made on that is that tobacco be uniformly graded and supported throughout the tobacco marketing season. Now, what we are saying here, we do not want a grade of tobacco changed during the marketing season. In other words, a grower who is rushing his tobacco a little bit, he'll get a greenish tobacco. This should not be to start with, but we cannot see any grades being changed during the tobacco season.

We also urge this committee, Congressmen and Senators, and the administration to consider the American tobacco farmer in any proposed changes in the tobacco quota system. And, I think these are the people that are the grassroots of the tobacco program. I am not going to take any more time. I thank you.

The CHAIRMAN. Thank you very much, sir. We appreciate your coming down here and being with us. And, we thank you for participating in the hearing.

This full text will be included in the record.[1]

Mr. MARSTON. Thank you.

The CHAIRMAN. Thank you very much.

The Chair must express a sense of embarrassment. I am advised that the distinguished Jordan M. Jenkins of the Virginia Farm Bureau has been here and, apparently, there was some confusion. Congressman Wampler, I did not know until just this minute that they had filed a written request to appear. In any case, Mr. Jenkins, Mr. Ashworth, and Mr. Glass, if you will, come forward. We will be delighted to hear from you. We apologize for not knowing that you were here.

Mr. WAMPLER. Mr. Chairman, would you yield?

I would like to take this opportunity to introduce to the committee these fellow Virginians. They are not constituents of mine. I think most of them reside in the Fifth Congressional District, which is very ably represented by Congressman Daniels, I believe, or perhaps—anybody from the Fourth District? In any event, we welcome you here and are anxious to hear what the Virginia Farm Bureau Federation has to say.

STATEMENT OF JORDAN M. JENKINS, JR., CHAIRMAN, FLUE-CURED TOBACCO COMMITTEE, VIRGINIA FARM BUREAU FEDERATION, ACCOMPANIED BY A. K. GLASS AND WAYNE ASHWORTH

Mr. JENKINS. Mr. Ashworth to my right is a tobacco farmer from the Danville area, and Mr. Glass is a staff personnel with the Virginia Farm Bureau. And, before I begin, Mr. Wampler, our comments today are addressed primarily to Flue-cured. There will be additional comments on burley.

Mr. Chairman and members of the committee, I am Jordan M. Jenkins of Blackstone, Va. I'm a Flue-cured tobacco grower and chairman of the Flue-cured tobacco committee of the Virginia Farm Bureau and also a member of the board of directors for this organization. We appreciate the opportunity to express the views of our organization on possible changes to the Flue-cured tobacco program. There is no question that the tobacco program has been the most successful of the commodity programs authorized by the legislation since 1933. It has served the interest of all segments of the tobacco industry quite will over those years. The success of this program can be attributed to the willingness of growers to make changes in the program which would provide stability and safeguards for when problems developed.

Tobacco growers in Virginia appreciate the stability provided and want to maintain the tobacco production income program. Growers cannot produce and market tobacco in a totally free-market environment. A review of the history of the U.S. tobacco industry since the period of the Jamestown Colony substantiates the undesirable shifts in market prices of a tobacco industry free of some disciplines.

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[1] See p. 128 for the prepared statement of Mr. Marston.

It has been the desire of tobacco farmers that the program be operated in a manner which would not result in a drain on the Public Treasury. We have long recognized that the loan program is not a market for tobacco, but rather a mechanism to prevent a boom or bust economic situation to growers. For several years, tobacco grower members of our organization has expressed their concerns that additional changes were needed in this program if the program was to continue to function effectively. I believe producers across the entire belt are now ready to make significant changes in order to continue the stability of this industry as known for years. No doubt there are some differences in the nature of these changes. However, I think these differences are minor. We suggest changes to be made need to address not only the no net cost mandated by Congress, but should also consider four other basic objectives.

And, they are as follows: One, increasing the sales of U.S. Flue-cured tobacco at home and abroad. Two, increasing tobacco growers' production opportunities by increasing quotas. Three, reducing the cost associated with leasing quota. And, four, contributing to a more favorable balance of payments in international trade.

To achieve these objectives, we wish to present the following recommendations for serious consideration: No. 1, we support the transfer by sale of Flue-cured allotments within the county. The opportunity to buy or sell allotments would permit growers to put together economical production units, while providing the seller the opportunity to recover equity from such transactions.

Second, we recommend that the lease and transfer of allotments and quotas within counties be continued through the 1984 crop year; and effective with the 1985 crop, the lease and transfer program be phased out. The lease and transfer program has been a program of convenience and efficiency for growers, while permitting quota holders not desiring such quota to receive annual financial considerations. However, over recent years, Flue-cured growers and public figures not friendly toward any tobacco program have become very critical of the rates growers have to pay for the annual lease of an average quota.

Three, we recommend that the average price support loan levels of the 1982 crop be retained at the 1981 level at $1.5870 per hundred weight and that the present formula used to determine the loan level be amended to specify that, for Flue-cured tobacco, not less than 50 percent nor more than 65 percent of the increase provided by the formula be added to the price support loan level in future years.

Some will view this kind of modification as being drastic. However, we believe this change will make quality U.S. Flue-cured tobacco more competitive in the world market and will enable American growers to regain a greater percentage share of the world market. It would permit appropriate adjustments in the grade loan schedule to more accurately reflect the usability value of certain grades which should result in the increased domestic utilization and, thus, reducing imports. These combinations will result in increasing the poundage quota, thus reversing the trend of continuous cuts in the quota.

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Four, we recommend that the loan associations be permitted to retain any profits made on a crop as a reserve to offset potential losses on other crops held in the loan inventory. This concept is a good practice for any business and would be especially helpful in achieving the no net cost as mandated by Congress.

Five, finally, we recommend the enactment of legislation to provide for an assessment on tobacco sold by producers for the purpose of creating a reserve fund to underwrite any future losses sustained in the operation of the tobacco price support loan program. Such a reserve fund should be grower controlled and managed, preferably established within the established cooperative loan association.

In summary, we believe that the four board recommendations will achieve the objectives outlined. However, while there might not be total agreement on the specific changes, there is agreement that something must be done to maintain a program so vital to the economic stability of producers, the business community and the States where Flue-cured tobacco is produced. Again, we appreciate the opportunity to convey the news of the Virginia Farm Bureau at this hearing.

Thank you.

The CHAIRMAN. It's the other way around. As I said earlier, we appreciate your coming and your patience with us here today.

Chairman ROSE. Let's yield to the distinguished Congressman from Virginia.

Mr. WAMPLER. Thank you, Mr. Chairman. I want to thank you gentlemen for coming and for the patience that you have displayed. You have given us some good recommendations and we do plan to have a hearing in southwest Virginia during March, but that will be directed primarily to the problems of burley producers. It is hard sometimes to separate the differences of the different types of tobacco. What you are suggesting and testifying to here today will be very helpful to us.

Mr. Chairman and Mr. Rose, I want you to know that the Virginia Farm Bureau is held in very high esteem in Virginia. They do speak for a lot of producers; and, generally, I find myself in agreement with them, philosophically, in specific recommendations they make on legislation. I do want to thank you for coming today and sharing with us your views and those of your organization. Thank you.

The CHAIRMAN. Thank you very much, gentlemen.

Now, we will have a panel of farmers: Harold G. Allen from Lillington, Norris Harrell from MacClesfield, and Eugene J. Hopper, Jr., of Madison.

Chairman ROSE. Mr. Chairman, while they are coming forward, I'd like to indicate that—and I should have done this earlier. Congressman Whitley asked me to express to you his apologies for having to leave, but he's struggling with a chest cold and wanted to get home and get some rest. But, he'll be in Clinton on Monday for another round of this.

The CHAIRMAN. We can understand that.

We welcome you, gentlemen; and as I said to the previous group, I appreciate your patience. You've been here all day, also, haven't you? Thank you very much. You can proceed in whatever order you wish.

STATEMENT OF HAROLD G. ALLEN, LILLINGTON, N.C.

Mr. ALLEN. Mr. Chairman, I have submitted written copies of my views concerning the tobacco program, its problems and possible solutions. The ultimate solution will come to you. Many of the things we have heard today, we read in the media, we see on T.V., and from hearings, we hear many of the same things. This morning we heard testimony that some of those people would lead us to believe that there are no problems in the tobacco program except for those that are in Washington. That is not the case. I think perhaps rather than my going over the paper I presented you with, that I might make observations about things that I've heard today and relate to you my general feeling about those.[1]

Earlier this morning, there was some talk of widows. As far as allotments, I don't think there's a producer or person in this audience that would want to take something away from the widow, the retired or the disabled. I think that's the general feeling. We realize at the end of their life's work they're entitled to something. One of the proposals—I might say, before getting on with this, that the basic proposals the Farm Bureau and the Grange has recommended, I think are good—the Farm Bureau in particular. There is one thing that bothers me. This thing of requiring the allotment be planted on a farm 1 in every 3 years. I think this would be another hazard or handicap to the producer.

Most of us have our operations concentrated in one area, while we lease many or much of our quota from other parts of the county. That would create a problem for us.

There is one term that I've heard mentioned several times today, and no one has really elaborated on it; and I think at this time I would like to do so. I have talked with people down in Fairmont and I've talked with people in Raleigh last week. And, there seems to be a tremendous amount of concern over this fall leasing thing. Fall leasing came about, as I understand it, as the result of black market. If you do away with fall leasing, you'll just bring the black market back. Some of the things that affect the situation of fall leasing, I think, probably go back to the farm itself. Most of the poundage per acre base was established—I don't know how many years ago. It was sometime in the past. And, they do not necessarily reflect the potential of the farm today. What we've seen, in fact, is many of the farms that had low pounds per acre base have just quit producing. They are leased to other people.

So, I think as a general rule of thumb that each county could readjust those base potentials, take the amount of tobacco that's produced and the number of acres—the ASCS office knows this. They know how many pounds are produced and sold. From these two figures, we could arrive at a number that would be an average for the county. And, I would estimate in my county probably in the neighborhood of 2,100, 2,200 pounds per acre. And, I think it would be a reasonable solution to say, let's everybody have this for a base, rather the situation I had this past year. Out of six farms that I grew tobacco on, I had one that was 1,725 pounds per acre, one was 2,350 pounds per acre or so. We knew that we use basically the same practices and we can produce basically the same amount of tobacco on one acre as we do another, since we do have a concentrated farming operation. Therefore, if we go back and adjust these things, we can eliminate a part of the stress that we have on the tobacco program in the fall. You have a lot of people demanding pounds. The reason for that, on a 1,700 pound per acre base, the person might very well make 2,400, 2,800 pounds per acre. So, we're talking 600 to 1,000 pounds per acre in excess of what he can sell. Therefore, I think that we need to bring this potential back in line with what it is.

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[1] See p. 129 for the prepared statement of Mr. Allen.

I noted that the Tobacco Growers Association had recommended that we go back and assess a current poundage per acre based on the past 5 years. That, I don't think would work, for the simple reason, many of the farms that I lease from—and I'm sure that I'm not by myself—have not had tobacco grown on them in the last 10 years. So, there is no current history for those.

That about covers, sir, what I would like to say to you.

Thank you, sir.

Chairman ROSE. Can I say something before you start. What he just did is very helpful. I know you've got prepared statements; and if you want to go through them, that's your business. We're going to sit here and listen to whatever you give us. But, we're going to put the whole statement that you've got in the record. It's going to be printed in our hearing record. If you want to read the whole thing, do it. If you want to hit the high spots sort of like the witness who just testified did, that would be very helpful, too.

STATEMENT OF NORRIS HARRELL, CHAIRMAN, EDGECOMBE COUNTY FARM BUREAU, MacCLESFIELD, N.C.

Mr. HARRELL. I'm a small farmer from Edgecombe County.[1] I would first like to address you as chairman of the Edgecombe County Farm Bureau Young Farmer and Rancher Committee. I'd like to say that they are in favor of the administrative action which would allow the Stabilization Corporation to increase the overhead deduction, charged the producers; and they are also in favor procedures whereby net gains could be kept for stabilization and would be available for the losses of future crops. They are also in favor of the Secretary of Agriculture being able to adjust price support levels for various grades of tobacco according to changes in economic and marketing conditions.

Now, speaking as an individual farmer, I would like to say that farmers are already being caught in a price squeeze between rising production costs on one hand and the threat of reduced price supports on the other hand. Much of what I have to say has already been said by the former panel of farmers you had up and Mr. Howes, which I think said it very well. I think you are all familiar with the problem of high lease rates. I would like to agree with Mr. Howes.

Going back to the original farm 1 year in 3 would place a hardship on a great many farmers who are able to hold down prices by being able to lease tobacco to the farm. And, also, there's a great many farmers that do not produce tobacco that have allotments but grow other crops. That would upset their production program also. As I see it, the biggest factor to be dealt with is lease rates for quota; and as leasing rates increase to more than one-third the cost of tobacco production, profits are lowered. And, this could lead to a greater decline in the number of tobacco growers and an increase in the average size of tobacco farm units. Rather than say the tobacco quota should be in the hands of the growers, I ask you, wouldn't the Government, the small grower, and the market benefit more by placing the quota in the hands of the growers? Naturally, the farmowners would continue to receive land rent but, hopefully, not at the $1,000 to $1,300 per acre now being paid just for the right to grow tobacco.

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[1] See p. 132 for the prepared statement of Mr. Harrell.

You may want to consider those people that have just purchased farms based on allotments. In my opinion, they have always been faced with the fact that the allotments could possibly be voted out every 3 years since the program was started. And, if you believe they should be guaranteed a return on their investments for their allotments, then what kind of guarantee do you believe should be given to buyers if, as the Farm Bureau suggests, allotments are allowed to be sold? And, I would like to ask you if you believe at this point in time, would you consider the purchase of quota as a sound and wise investment in view of the health controversy, the decline in domestic market, and in face of opposition to tobacco in Congress? I believe and feel the quota should be in the hands of the grower, rather than those who own the farms; because it is the farmer who provides jobs for thousands of people from planting to harvest, and contributes to the balance of trade. It is the farmer that must borrow operating money at high interest rates to pay production costs, and it is the farmer who must risk all against the elements of nature.

And, now, we are being asked to provide funds for a program that has come to a point in time that no longer provides the majority of the benefits to the man it was originally intended to help. I believe in the quota system but I believe it should belong to the man who grows the tobacco. If the tobacco is in the hands of the grower, then he can afford the grower assessment and the reduced price supports to keep the program working.

I have some suggestions, but in the essence of time, I'll just——

The CHAIRMAN. Well, if you wish to file those in writing, we'll be delighted to include them as a part of your statement.

Mr. NORRIS. You have those suggestions in writing. It's pretty much what Mr. Howes said and what the lady said.

The CHAIRMAN. Well, your entire statement will be in the record.

Mr. NORRIS. It is pretty much in line with what the lady from Climax, I believe it was, said.

The CHAIRMAN. Thank you very much.

Yes, sir, you are recognized.

STATEMENT OF EUGENE J. HOPPER, JR., MADISON, N.C.

Mr. HOPPER. Due to time, Mr. Chairman, I'll just read my summary.[1] I would like to state to the committee, in the past few months, I have read many articles, listened to many ideas, and have heard Government officials offer solutions to the tobacco program. However, I have heard little about the young farmer, the small farmer, and nothing about the new producer and he is thinking about the present situation.

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[1] See p. 134 for the prepared statement of Mr. Hopper.

The farmers' organizations in North Carolina are doing a good job for the large producer. I am not certain they're interested in the young farmer, the small farmer, and the new producer. Little has been heard about changes in the tobacco program. How it would affect the large corporations, utilities, municipalities, churches, universities, and many other nonproducers who have no intent of ever producing their quota. Gentlemen, whatever changes are made, I respectfully ask that the committee represent all producers, large and small. Since Congress mandated that the tobacco program be self-sufficient, and this will come from the expense of these producers, let the producer have the quota to pay his way. I thank you for your time and consideration of my opinions and the job that you did on the 1981 farm bill.

The CHAIRMAN. Congressman Rose and Congressman Wampler, will you agree that, from my observation today, we have heard the real eloquence? In the early days of Congress, as a matter of fact until fairly recently, Congress went in session very early in the year and was out, oh, in 3 or 4 months because they had to do their planting. Most of those in Congress were planters, farmers. Gradually it became a lawyer's outfit. I say that with all due respect to lawyers. I'm not one, but—now, we are in session until we are singing Jingle Bells in the Chambers right before Christmas. If you do your work in Washington, in the Senate or the House, it is so difficult to get home; and I think something has been lost in the transition. That's the reason I viewed this hearing, and others in which I have participated and will continue to do so, as so valuable; because we are hearing from people who paid for government and who are affected, so often adversely so, by government. I couldn't be more sincere when I say to you three, and all the others who have appeared here today, that I deeply and genuinely appreciate the sacrifice of your time in coming here. This is not just a pro forma hearing, because I for one have learned a very great deal and I know that my colleagues have, as well. I thank you most sincerely.

Mr. ALLEN. Mr. Chairman, there were a couple of things I wanted to point out. As I indicated earlier, there was a lot of talk this morning about the widows, allotment holders, and such. These are not the people that we really have problems with. Most of the time, they are the easiest people for us to lease from. You have to step on a few toes here, but some of the people that don't serve to the benefit of the program—attorneys, for example, you've heard warehousemen mentioned—that get involved in this leasing create tremendous problems. While I probably wouldn't be considered a young farmer, as such—I may be middle of the road—I would say to them, the Government cannot guarantee you a business, that you're not going to have problems. I think any business will benefit from a slow growth. We should not jump into a business beyond our grasp only to go bankrupt all of a sudden.

So, I would encourage young farmers to keep trying. They will make it work. I began in 1969 with 3½ acres to tobacco. You can make it work. Thank you.

The CHAIRMAN. Thank you, sir.

Our final scheduled witness—and then I want to hear from any other farmers who wish to participate. But, our final scheduled witness is

George B. Watson, Sr., of Rocky Mount. Mr. Watson, your entire statement will be printed in the record and you can summarize or whatever you wish. But, in any case, we welcome you here and appreciate your coming.[1]

Mr. WATSON. Thank you very much, Mr. Chairman. I have a feeling that I'm keeping you from catching a plane and Congressman Rose from catching his supper.

The CHAIRMAN. I've missed planes before.

STATEMENT OF GEORGE B. WATSON, SR., WATSON SEED FARMS, INC., ROCKY MOUNT, N.C.

Mr. WATSON. Thank you, sir. Mr. Chairman and other friends of tobacco, we have heard quite a bit here today about our tobacco program being in trouble. You know, the first thing my banker asks when I go down and tell him I'm in trouble is, "Why?" He wants to know why. And then we try to decide what we can do about it. I have this rather lengthy statement here, and I think it has a lot of meat in it that tells why we are in trouble. And I see a lot of hope for us down the road.

I think 5 years from now that we are going to be in a lot better position in American tobacco production in satisfying the needs of our customers. But, I think we must ask ourselves why we're in this trouble and what we can do about it. If I might, I'll get into it here, sir.

My name is George Watson. I 'm a tobacco farmer and seed producer from Nash County. Our three sons participate in our family business. They are the fifth generation of our family to be farmers.

This year, 1982, is the 55th tobacco crop in which I have been involved. This period has taken us from the mule-drawn sled to the self-propelled automatic tobacco harvester. However, there are many things pertaining to tobacco that have not changed, nor should they. Up until mechanical change began to appear in tobacco production and curing, successful tobacco farming was an art. Today, it has become a scientific art.

Page 2 at the bottom, sir, the tobacco plant is the gift of nature containing certain chemical components that have given individuals a stimulant, pleasure and recreation in our country during the past 375 years.

The tobacco plant, as we know it, is quite different from that found in its natural habitat. It responds magnificently when given man's and nature's tender loving care and knowledge. We have at our land grant universities the world's best tobacco research and extension. However, the tobacco plant, like most living organisms, is difficult to handle. Yes, weather can greatly compound poor results. However, grower abuse is one of the main reasons F–C stabilization continues to carry large inventories in some grades and is asking for the privilege of adjusting the support price for these grades.

Briefly analyzing the 1981 crop produced 1,233,748,992 pounds. F–C received 8.58 percent or 105,000,000 pounds. Fifty-eight percent of stabilization receipts or 61½ million pounds was in the B–K grades. This was 143 percent of the 10-year average; whereas, only 43 percent of the entire crop was in the B–K grades. And, I have an explanation there as to what makes this up. Basically, these are the unripe tobaccos that come in a large part from managerial practices. However, weather does compound these problems some.

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[1] See p. 135 for the prepared statement of Mr. Watson.

The B grades of tobacco are the ones that you mostly depend upon for export customers purchase. The average support price for 1981 was a $1.58 a pound. I would like to point out that the Eastern Belt average a $1.70 per pound, or 11.4 cents per pound over support. Likewise, all Belts were at least 4 cents above support. There were many growers with 10 to 150 acres last year that averaged from 20 to 28 cents above support. To me, this says that tobacco is the life blood of the tobacco companies. We have a good home for good quality tobacco. To insure good market and a stable supply, I feel that stabilization should handle approximately 10 percent of each year's production. Senator, to try to summarize, one of the reasons that we have a problem—back in 1950, there came on the scene here at North Carolina State a young agricultural engineer from Missouri named Pat Hassler. Pat worked on a new system of curing tobacco for 10 years; and by 1960, this system was ready to go out on the farms. And, this was a great change. I state in my remarks here how he went about that change and what it has meant and the reaction to the farmers as the result of this change. And, of course, after this came on the scene in 1960, the door had been opened for development of automatic harvesters. Many problems appeared on the horizon, including the tobacco companies' acceptance. They, along with the tobacco farmers, had to be shown. One of the main problems was, how can you mechanize a 4-acre tobacco farm? This was the average size farm tobacco allotment at the time.

Someone came up with the idea of letting those farmers that were phasing out of tobacco production, because of retirement, death, seeking other employment or for other reasons, to lease their tobacco to their neighbor within the county for 1 year. Wow! What an explosion! This idea was bitterly opposed. Some comments were that the small farmer would be put out of business and allotments would all end up in the hands of the rich.

Also, in 1965, after 5 years of abuse to our program, stabilization was holding 930 million pounds of tobacco. And, all indications were that unless some immediate change was made in 1966, we'd add another 250 million to 300 million pounds to their inventory and the program would fall from its own weight. After a 3-year struggle, all interested parties were in agreement and asked Congress to let the tobacco farmers vote on a change in the program. After our congressional leaders all accepted the idea of a need for a change, it took only 30 days to pass needed legislation. This happened, even though many had said the tobacco farmer would not vote for a change. The vote was over 95 percent in favor; and, thus, acreage-poundage was born.

Following shortly behind acreage-poundage was the birth of the tobacco variety discount program and certification of varieties. Out of this grew the Tobacco Variety Release Committee which has functioned for over 18 years and is unparalleled in tobacco annals.

American tobacco companies have sat on this committee for 18 years. This committee is made up of representatives from tobacco manufacturing, tobacco leaf dealers, commercial seed dealers, public agencies and farm organizations' representatives. This committee sets the standards for new tobacco varieties.

The first 10 years of bulk curing developed very slowly. However, between 1970 and 1980, approximately 44,000 bulk barns were placed on farms. This was enough to cure approximately 80 percent of the crop. At the time, most of these barns were put on the farms, energy was not considered a big expense. Therefore, very few of the barns were insulated or equipped with automatic controls. Everyone is familiar with the rising energy costs during the past 3 years. The majority of this equipment is owned by the farmers who had been depending on renting their allotments. Rents have gone up, equity in most of their equipment has gone down. The technology of bulk curing being so new and coming on so fast, many of our farmers have not completely achieved the results they had expected and hoped for. This has resulted in many millions of pounds of tobacco going into stabilization during the last 10 years.

Fortunately, there is much improvement in this technology at this time, such as insulation and automatic controls that could update the bulk barns now in use, at a cost of approximately $40 to $50 million. Research and on-farm testing have shown that these improvements will save this amount in energy costs yearly, while also improving the grade of the cured leaf.

North Carolina State University agricultural engineers estimated that energy costs of curing the 1981 crop in North Carolina at more than $100 million and that could have been done for less than two-thirds of that amount, if everyone were using the latest available technology and equipment. Canada has gone to bulk curing in great numbers only during the past 5 years. Tobacco rentals have undoubtedly been the most vocal subject among tobacco farmers during the past 5 years. To approach this controversy, I think one must determine what is a tobacco farm. To me, any farm that has a tobacco allotment which is planted on that farm by someone at least once each 3 years is a legitimate tobacco farm. Some say this would produce a hardship on the producer. However, good agronomic practices would support this requirement.

Senator, I'm saying, if C.P. & L., the Research Triangle, the Boy Scouts Council wants someone to plant their allotment on their land, they would qualify as a tobacco farm. But, I don't think they're going to do that. As for those who have allotments, they should have the opportunity to dispose of the allotment by sale to someone in the county in which the allotment is held. In keeping with good agronomic practices, the purchaser should be required to have at least 2 acres of cleared land for each acre of tobacco owned.

In Canada, tobacco allotments have been sold from farm to farm for many years. Ten percent of the sales are between farmers. Ninety percent are listed by real estate firms that find a willing buyer. Adding the privilege of sale and transfer to the privilege of lease and transfer should relieve some of the pressure on the price of the transfer of allotments. Nash County, like so many other governmental bodies, owns approximately 20,000 pounds of tobacco allotment. This is auctioned to the highest bidder on the first Monday in February each year by the Board of County Commissioners. The county has no cleared land on which anyone could plant this allotment. However, this auction sets the rental rate for most all tobacco leased and transferred throughout the county. And, I have attached to this, sir, a 10-year running of what the tobacco has rented for. In 1982, it rented for 66½ cents per pound, which is approximately 39 percent of what I think the support will be for 1982.

I'll skip the next paragraph. It talks about some of our congressional Representatives; but they've told us in their opinion, Mr. Chairman, how we can go about getting some changes in our program.

I would like to pick up and say, the best effort that I have seen to secure this unified front took place on May 15, 1980, when Mr. Fred Bond, who is director of the Flue-cured tobacco stabilization, sent directives to all organizations interested in tobacco production and suggested consideration of organizing a regional Flue-cured tobacco task force to meet and assess the problem areas in tobacco. The task force would be made up of representatives of Flue-cured tobacco producing areas which would include representatives from the farm organizations, tobacco companies, warehousemen, USDA, State departments of agriculture, research, extension, and others interested in tobacco. As I pointed earlier, Mr. Chairman, this approach has worked very successfully in tobacco for over 18 years; and I think it would be much better than having congressional hearings every 8 to 10 years.

Mr. Chairman, I feel that the minutes of this task force should become a part of your record to study. To me, this approach to sit down and discuss the issues is the proper approach. But, it's got to be a team effort. If not, there is no collective wisdom.

Friends of tobacco, we constantly hear about problems in tobacco. We recognize and appreciate the economics of tobacco to our State and Nation, but are we really pursuing opportunities of tobacco? To me, the best way to improve the agricultural economy in eastern North Carolina during the next 10 years is to grow and sell more pounds of quality tobacco. Is this possible with the projected growth of the use of tobacco products in the United States over the next several years at only 1 to 2 percent? There are many questions to be answered. Why have the export leaf dealers invested hundreds of millions of dollars in new tobacco processing plants within the past 5 years, and most of this in eastern North Carolina? Why is Philip Morris Tobacco Co. shortly coming on the scene in Concord with a new $400 million manufacturing plant? Why is R. J. Reynolds Tobacco going to spend $1¼ billion in the Forsyth County area during the next 10 years to double their entire U.S. tobacco production?

Mr. Chairman, I have an answer to that one in my written statement.

If one watches the tobacco company programs closely, it is clear their planning stays 2 decades into the future. Friends of tobacco, if we do what is in the best interest of tobacco in the United States, I feel sure this would prove best for everyone with tobacco interests. Thank you, sir; and I have a supporting ad on tobacco rental that I want in the record.[1]

The **Chairman**. George, that is a remarkable presentation. I was going ahead of you, because I didn't know what you were going to leave out. I took a little speed-reading course a few years ago, and it didn't work all that good, to tell you the truth; but I have thoroughly enjoyed your presentation. You have devoted an immense amount of thought to it. Thank you very much.

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[1] See p. 139 for a reprint of the ad.

Mr. WATSON. Mr. Chairman, we can produce and cure a lot better tobacco than we have, we have the technology. It's just a matter of us getting out there and using it. If there is anybody in the room that isn't satisfied with the way he cured his tobacco last year, I will certainly direct him somewhere that I think can help him a whole lot. Thank you, sir.

The CHAIRMAN. Before you leave, I am interested—in fact, one of my pet projects in connection with the Agriculture Committee has not even been mentioned today; and that is the rapid quantum leaps that are being taken with respect to extraction of protein from tobacco. You can look with optimism or pessimism, but that offers untold opportunities and we are currently contacting—I got a letter last week, I think—a number of entrepreneurs around the country, mostly for advice at this point, about the actual production of protein in tobacco. You look at such things as the fact that 1 acre of tobacco can produce four times as much protein as an acre of soybeans. Then I put on my hat with the Foreign Relations Committee; and I look at Central America and all of the other Third World countries at the hunger and all the rest of it. What a market effect, what a splendid contribution it would make toward perhaps solving a lot the revolutions going on in this world. So, I agree with you. I won't quote F.D.R. precisely, but he was pretty much correct when he said "we've got nothing to fear but fear itself," if we keep our thinking caps on and do the best we can. I want to thank you again for a fine presentation.

Mr. WATSON. Thank you, sir.

The CHAIRMAN. Now, I've got to go catch a plane in a little bit; but I want to hear from some more farmers. Could we have about six more, please?

We have one, two, three, four, five—all right. Now, in each case, if you will, give your names and addresses so that the lady can have it for the record. Suppose we start on this end and go down.

STATEMENT OF LAWRENCE T. ELLIOTT, HENDERSON, N.C.

Mr. ELLIOTT. Mr. Chairman, my name is Lawrence Elliott. I come from Vance County. I represent a new type of farmer or I would like to think that I represent a new type of farmer in Vance County and in North Carolina, known as the producer. I would like to make a distinction and separate myself from these people who vocalize and oppress those people who are trying to produce, a quality type tobacco in North Carolina and compete on a foreign market. It is bad when you have to compete with a country that has the capacity to produce tobacco far less than we do. These people in foreign countries, like South American, are talking about paying labor to people of something like, oh, 25 cents to $1 a day. I have worked and had the opportunity to work some people out of Mexico. Down there, these people are working for something like $3 a day, if they're lucky. Up here, they can earn a whole lot more than that. And, it's hard for us to compete in something like this.

And, I would like to see—I don't know what types of mechanics it would take to get the program designed so that it would suit the tobacco producers; but I think we certainly ought to take a look at this, because he is the grassroots man—whether he owns land or whether he's out there just working it for a living, like a tenant. I myself—I farm about 80 acres of tobacco; and of that, I must say that I have an allotment of 985 pounds which I purchased recently. But, I would like—well, I would think—I would like to think that I would have a chance to progress, without having to ride half the county on my shirttail. I, frankly, am fed up with people who control allotments and don't even live in North Carolina—people in Daytona Beach, Fla.; people in Long Island, N.Y.; people in Alabama and California and wherever. These people don't have any interest in the farm community here in North Carolina. They are taking money out of North Carolina and spending it somewhere else.

Like I say, I would like to see a program designed to help the producer of tobacco. Thank you, sir.

STATEMENT OF SID HATCHER, APEX, N.C.

Mr. Hatcher. Mr Chairman, I'm Sid Hatcher I'm a tobacco grower and producer, and it reminds me of the Greek proverb that said it is better for a man to keep his mouth closed and appear stupid, than it is to open it and remove all doubt. And, it never ceases to amaze me how often I violate that old proverb. And, there is one thing I can assure you of, also, that when I finish, you won't commend me on how well prepared by statement was. But, we want to say to you and your committee, thank you for the Government and our Representatives having some kind of contact with the people, the growers, and being attentive enough to listen to all the statements, no matter how ignorantly presented or how well presented. We thank you for it. I think somewhere between the meshing of the ideas that have been presented here today is the solution to our problem; and, thank the good Lord, they haven't been contradictory, each to the other one. And, we haven't really had a good knockdown, dragout fight. I appreciate it.

The Chairman. I appreciate it, too. You don't have to apologize for your presentation. That's excellent. Thank you very much.

STATEMENT OF ANDREW TYSON, NASHVILLE, N.C.

Mr. Tyson. I'm Andrew Tyson from Nash County. First of all, I'd like to say thank you for the part you have played in maintaining the tobacco program and, certainly, we want to continue to have the tobacco program in some form or fashion. Because, the farmers themselves have proven that free enterprise in a lot of commodities simply will not work.

First of all, tobacco allotment I think definitely has a value to it. I started out with zero, and I have worked hard and long hours. I've managed to pay my bills, and acquired some land with tobacco allotments. That certainly has some value to me. I lease a lot of my tobacco allotment. In fact, I probably lease about 75 percent of the tobacco that I farm. I would like to see the allotment be allowed to be sold without the land. Many people do not have cultivable land to farm it on; and in a lot of cases, these people would be willing to dispose of actual tobacco quotas at some price. There was some mention earlier today about the Government furnishing some money to young producers who would not be able or have the capital expenditures to buy it. I'm not a favorite fan of FHA. I can tell you some tales about things that I know of in Nash County, and I'm sure you can tell of others in the United States. Personally, I believe when I borrow a dollar, that I'm obligated to pay it back; and all of the tobacco allotments that will be for sale certainly will not be disposed of in 1 year. If these gentlemen want to start out like the rest of us, start out small and work long and hard hours, there is certainly room in the marketplace for them.

Second, I would say that I'm in favor of doing away with the fall leasing; and I think we can do away with fall leasing if we will do one thing prior to that. Some of the farms being leased have an acreage or acreage-poundage based somewhere in the 1,400 to 1,500 pound bracket; and we're making 2,300 to 2,500 pounds per acre. If we will readjust these, this is going to take a lot of pressure off the fall market. I do not agree with the Farm Bureau proposal of planting the tobacco on the farm 1 year in 3. What we're talking about is efficiency and preservation of fuel. I know what this would do to efficiency in my operation, since we lease tobacco from all areas in Nash County. It would simply not be economical and feasible for me to truck tobacco 15 and 20 miles to our bulk barns at home. I prefer to have it on farms that we own or that we lease in our neighborhood.

That's all I have to say, other than thank you for listening to us today.

The CHAIRMAN. My pleasure. Thank you very much.

STATEMENT OF GORDON WILLIAMS, GODWIN, N.C.

Mr. WILLIAMS. Mr. Chairman, I didn't come prepared to say a thing here; because I had my say in Fairmont. But, I couldn't help but observe what was discussed here today. And, just in case the anti-tobacco group had a fifth columnist here, I would hate for him to take back to Washington the impression that was cast here. I grew tobacco up to last year. I am 67 years old, and I can grow it again. Now, we heard discussed here the tremendous cost of leasing tobacco; and I want to say who is responsible. And, I'll put the blame right where it is. It's the young grower coming on the market with money that's available to go in big business and he's out bidding against everybody else to get that allotment. And, there's no other way to get around it.

Last year when I put out—I don't have much allotment, just 6 acres. I only farmed 500 acres of grain, soybean, wheat, and all that stuff. So, I don't even fit in the tobacco picture much. But, this allotment I had, I had barns to cure it in. I had the water hose to water it with. I had everything that went with it and a lifetime of work behind it. These young men with their overdrive pickups and their guns hung in the rack rushed to my place; and, my God Almighty, they offered to pay me more than I thought they could possibly get out of an acre of tobacco and pay. How they could offer me that, I don't know. I did not rent this to these people, because I knew it would be a wreck to the program. I rented it to a neighbor of mine for just what I had been renting for and thought I could pay, which was 40 cents a pound—which is aplenty. And, these people that's responsible for this high rent, regardless of what they might imply here today, you are—if I read the news right, Senator Helms, accuse you of being an absentee allotment holder. A meeting with such folks as the rest of us who have quit and don't grow tobacco, to jack up this rent so the—have you ever in your life attended a meeting to jack up the price of allotment rent? I never have, and I don't believe there's an allotment holder in the State of North Carolina that ever went to a meeting to try to figure out how he can jack this up on the grower.

It's a cost of—it's a case of—I was at the tobacco sales in Goldsboro, and there were about four of us sitting on a trailer eating dinner. Two men there were discussing the tobacco, what they were going to plant next year. One asked the other, says, "How much are you going to plant next year?" He says, "I'm going to increase mine about 30 acres next year." He said, "How do you plan to do that, friend?" He says, "I'm going to put about two super-A men out of business." And, do you know what a super-A man is? He's a small grower, an allotment holder. And, I don't have a bit of doubt but what these two men would put two super-A men out of business. Because, they have the backing, financial backing, to get out here and overbid that man; and they did.

So, let's don't leave here with the impression that—when I was sitting out there and some remark was made about "take it away from the allotment holder. Give it to the producer." And, you know where I heard some of that applause coming from? My goodness, they weren't tobacco growers giving that applause. Uh! Charlie Rose had them pretty well sized up.

I've got to say this: The people that's responsible for the lease being where it is, the price, are the people that are bidding to grow it. I challenge any man to show me any group of growers that meet and set up the prices they're going to ask for their tobacco. That's all I've got to say.

The CHAIRMAN. Thank you very much.

STATEMENT OF PAUL McCOY, NEW HILL, N.C.

Mr. McCOY. Mr. Chairman, I'm Paul McCoy from Chatham County; and I might be in a little bit of a unique position here. I have about a 14,000-pound allotment of my own and I lease about 60,000. But, I happened to hear that applause this afternoon; and that's what triggered me to come up here now. I think it was an applause of greed My mother taught me that you don't take something away from people. And, these allotments, in my opinion, were bought with sweat over the years, by most of these people. We've heard about the widow. Sure. I hope you and Mr. Rose and all of you Congressmen do consider these people, because we don't want to take their allotments away from them without just compensation. I hope when we do go out into the marketplace and figure a way to get these allotments that don't have enough land left to tend it on, that we do justly compensate those people, so that we can feel proud.

I will be no party to that applause that shook this building this afternoon, and I don't believe those people really meant what they were saying. So, we've got a problem; because if we aren't unified on that one thing, these widows are going to tear this program all to pieces. Because, they are going to carry this to the halls of the Supreme Court, before they have this rightful thing that they own taken away from them. It started years and years ago. My daddy and your folks came up through this process of getting this history and fighting and working for this tobacco allotment, and I want to be no party to taking it away from them. I rent the one biggest allotment in Chatham County from my first cousin. I pay him a price less than he's offered from people from other counties. But, he knows that when the nitty-gritty time comes, if I can work with him in Chatham County to stablize what he's got, I'm going to try to do it; because we're friends and neighbors. And, I believe that the good things that are there in the tobacco program we need to really look deep and find them to be sure that character and integrity are there in the revised program. I appreciate Charlie Rose saying the other night on Channnel 4 Television that he will be no party to seeing these tobacco allotments taken away from these people that have bought them, worked for them and have retired and need this income. And, by gosh, there's going to be something wrong with this country if these young people take that without a fight.

Thank you.

The **Chairman.** Thank you very much. I appreciate it.

I just inquired a minute ago about the witnesses we have heard today. We have heard from 27 individual farmers with a broad range of views and presentations by representatives of 11 organizations, many of which are farmers themselves. I think we have had a good day. I know that this Senator has been given much to think about, and it will be very helpful when we sit down and get down to the nitty-gritty.

I want to say to you, Brother Wampler, it is so good of you to come to North Carolina and participate in these hearings. You've been here all day, and we appreciate Senator Huddleston's having come—Charlie Rose, Charlie Whitley, John Napier. But, most of all, I appreciate—how many do you estimate were here today? Between 1,500 and 1,600 people came and spent varying amounts of time. As I head for the airport to catch an airplane to go back to that place, I want to thank you for your interest, lets keep in touch. God bless.

Mr. **Wampler.** May I take this opportunity to thank you for your hospitality and for inviting me here. I was in Fairmont at the hearing about 10 days ago. I expect to be back in North Carolina on Monday and Tuesday at the two hearings that we will have in Clinton and in Kinston. And, I hope that the good people in North Carolina appreciate the type of leadership that you have in the U.S. Senate. I've had the pleasure of working with Senator Helms. We haven't always agreed, but in most instances, we have. Usually, it's a question of a degree, rather than substance. But, I want to compliment all of the witnesses that appeared here today, those that had prepared statements and those that spoke informally; because I attach a great deal of significance to both of them. Those of you that were speaking from the heart, I want you to know how much we appreciate it; because I know that is the deep feeling that you have. Tobacco indeed is an integral part of the life of so many of us. We appreciate all of you being here today, and I want to assure you that we are going to carefully consider the recommendations and suggestions that you present to us. We hope that whatever we can present in our best collective judgment will be what will meet your approval and will help preserve this program that means so much to all of us. Thank you again for your kindness.

The CHAIRMAN. Bill, I will close on this note. I am a great fan of Winston Churchill. I like to read about him. He had a quick wit and a great mind. He was invited some years ago to go back to a boy's school which he attended. Young fellows, 12 and 13 years old, were all gathered and had heard great publicity about how the Prime Minister was going to speak to the student body. They had promoted a big crowd and the great day came, and they had him up there on the podium. A fellow got up to introduce him and went on and on and on in the introduction. Mr. Churchill, with his slumping way, walked over to the podium and he looked out among the crowd and he looked almost at each one of them with those piercing eyes of his; and he said, "Young men, never give up—never, never, never." And, he walked back to his seat and sat down. Now, we chuckle about that, but there's a pretty good sermon in that. Let's not give up. God bless you and thank you for coming.

[Whereupon, at 5:45 p.m., the committees adjourned, subject to call of the Chair.]

APPENDIX

NORTH CAROLINA HEARING

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM SOUTH CAROLINA

Mr. Chairman, Members of the Senate Agriculture Committee, Ladies and Gentlemen: I commend and thank my good friend Jesse Helms, the distinguished and able Chairman of the Senate Agriculture Committee, for arranging to have this field hearing in the heart of the tobacco-producing region of the Southeast. It is my privilege to contribute to the hearing with this brief statement of support for the tobacco program.

Before I address the need for reasonable modifications in the tobacco program, however, I would like to stress the high regard and great respect that I have for the men who so ably represent the State of North Carolina in the Senate. Frankly, if it had not been for the tireless and bold leadership efforts of Senators Helms and East, there probably would not be a tobacco program as we know it still in existence today. Thus, all of those who, as I do, believe that a strong tobacco price support program is essential to the agricultural economy of the Southeast, should be grateful for the effective legislative leadership of these men and other key members of the Senate Agriculture Committee.

Mr. Chairman, throughout my years of service in the United States Senate, I have consistently supported the tobacco program. During debate last year on the 1981 Farm Bill, we had to again rise to the defense of this widely misunderstood program. As in the House, it was a difficult fight, as there were several amendments offered which, if adopted, would have been devastating to our tobacco farmers. After vigorous debate and several very close votes, we all breathed a deep sigh of relief when the last vote was tallied and the program remained intact.

Unfortunately, we cannot afford to rely on past victories to protect our interests. Support for dismantling the tobacco program appears to be growing each time the issue is brought before the House or the Senate. The simple fact is, the tobacco price support program may not survive another Congressional battle.

For that reason, I believe this Committee, tobacco growers, and all segments of the tobacco industry are wise to take the initiative in considering the need for reasonable changes in the tobacco program. The political realities dictate that those of us who wish to preserve an effective tobacco program must take the offense and act while we can, lest by our intransigence or indifference we play into the hands of our increasingly strong opponents on this important agricultural issue.

As we realistically examine the tobacco program in light of the many changes that have occurred in agricultural production and marketing over the years that the program has been in existence, it is evident that some of the features and restrictions of the program may have become outdated or obsolete. This has drawn the attention of several members of Congress who do not represent tobacco producing states and are not sensitive to the economic importance of the program. It is their desire to either severely restrict the program, or abandon it altogether.

Although I am willing to work toward reasonable changes that serve the best interests of tobacco growers, I shall continue to strongly oppose those who wish to gut or eliminate this successful program. Such drastic action is not warranted and would devastate the tobacco industry in South Carolina and other States. Were such radical changes to succeed, the already sagging agricultural economy in the entire Southeast would be shattered.

The basic framework of this program must remain intact, for a very simple reason. The program works and has a proven track record of inexpensive success. The tobacco price support program has been cost-effective and efficient throughout its 40-year history. Its success in achieving reasonable, commodity prices for farmers at negligible cost to the taxpayers makes it a model of achievement among all the various Federal farm programs. The basic format has stabilized the tobacco industry by avoiding overproduction and by requiring a quality product from the tobacco farmer who wishes to receive a fair return for his hard work. Most importantly, it has secured a chosen lifestyle for over 6,000 farmers in South Carolina and several thousand others throughout the Southeast, many of whom operate very small family-type farms here in the Palmetto state. These are the people who would suffer the most due to the termination or drastic alteration of this program.

It is the purpose of this hearing to elicit suggestions for improving the tobacco program. and I am confident that those who are experts in the production and marketing of tobacco will have a number of specific recommendations for the Committee to carefully consider. I am not an expert in this field, but I would like to mention a few areas in the program where there appears to be room for improvement.

Features such as the high cost of allotment and quota leasing, coupled with the growing number of allotment holders who are no longer directly involved in tobacco production have been the focus of recent controversy. Restrictions on entry of new farmers into tobacco growing may need to be relaxed. Additionally, some of the tobacco marketing practices could possibly be restructured and modernized.

In conclusion, I reiterate that we now have an opportunity to make needed changes in the tobacco program which will ensure its survival, but the burden has been placed on our shoulders to take the initiative. Change never comes easy or without some cost, and it will require vision and a willingness to compromise if we are to successfully restructure and protect this program.

Hopefully, the information presented at this hearing here today and in similar meetings in the future will provide the foundation for an even more effective tobacco price support program—one that will continue to provide the assistance and stability that the tobacco industry needs.

Mr. Chairman and members of the Committee, again I would like to thank each one of you for allowing me to present these views and for your leadership in this area.

STATEMENT OF HON. BRYAN PATRICK, COMMISSIONER OF AGRICULTURE, STATE OF SOUTH CAROLINA

Mr. Chairman, members of the committee, I am Bryan Patrick, commissioner of agriculture for the State of South Carolina. I would like to address the issue of the tobacco program—where we've been, where we are, and where we are going. Where have we been—gentlemen.

Tobacco became an important cash crop in South Carolina only after the implementation of the 1938 Agriculture Marketing Act. This act controls the production of tobacco in order to insure supply remain in line with demand and guarantees price support to farmers who comply. This act remains the backbone of today's program. Minor adjustments have been made as the need has arisen. In the 1940's adjustments were made in the parity base used to determine price support and in the 1950's the "modernized parity formula" was adopted. This formula remained in effect until 1959 when adjustments resulted in the current formula. The 1960's also was the decade to re-evaluate the tobacco program and implement needed changes which resulted in intra-county lease and transfer of allotments and acreage-poundage quota. The 1970's would bring yet another assessment of the needs of the tobacco program and the results included the grower designation program, the planted acreage certification, the four leaf program, and a standards and grades revision.

The Agriculture Marketing Act of 1938 is the backbone of this program but yet flexibility has been permitted to allow for a modern, workable program. Where does that bring us? It brings us to a crop that employes 250,000 persons on

23,000 farms. The 1981 crop yielded 240 million dollars to South Carolina farmers and had a measurable economic impact of 720 million dollars. In South Carolina tobacco ranks fourth in crop production but first in cash receipts. For example it takes the cash receipts of twenty acres of soybeans to equal the cash receipts of one acre of tobacco. Tobacco is a crop which supports the small farmer. In 1981, tobacco was one of two crops in South Carolina that made money and in 1982, has the best prospects of any other crop. Why all these positive statistics? Because the Agricultural Marketing Act of 1938 has provided a sound, workable program that gives an element of stability in an unstable profession.

Where are we going?—We are going to look at this program and to further fine tune its operation. The people have given us a mandate to operate this program at no cost to the United States Government. Upon assessment of the current operation of the program, I offer several proposals to accomplish this task.

Gentlemen, I am aware that tobacco faces many other problems but I believe that imaginative thinking is in order. Suppose we decide to reduce the current penalty for selling tobacco without a marketing quota from 75 percent to 42 percent of the previous years average price paid. This penalty would go to stabilization. The penalty for 1982 would be 70 cents a pound. This penalty is stiff enough to act as a deterrent against over planting. Now let your imagination go to work, farmers, what would the effect be? The effect could be a legal ceiling on rent for some areas. It could be the answer to farmers in good years who make extra pounds due to weather and need an outlet to sell their tobacco. There would not be a need for fall lease and transfer due to the fact that a farmer with excess pounds would pay the penalty. Without fall lease and transfer a certain amount of speculation would be removed. Would such an adjustment stimulate overproduction? How many farmers are going to pay 70 cents a pound for the right to work? It would probably stimulate over production as much as fall lease and transferring would. The key to excess production would be limited by barn space.

Gentlemen, this is not a proposal—this is just an imaginative innovation that is thrown out for consideration. I believe that it was such innovative thinking that lead to the current program and such thinking will keep this program.

STATEMENT OF JOHN SLEDGE, PRESIDENT, NORTH CAROLINA FARM BUREAU FEDERATION

Mr. Chairman and distinguished members of the Senate and House Agriculture Committees, I am John Sledge, president of the North Carolina Farm Bureau Federation and a producer of Flue-cured tobacco in Martin County. Our organization is appreciative of this opportunity to express grower views regarding proposed tobacco program changes and modifications.

The North Carolina Farm Bureau Federation is the largest general farm organization in the state with headquarters in Raleigh for 100 county organizations. Our organization represents the flue-cured growers in 70 counties and burley growers in 29 counties who harvested over 360,000 acres of tobacco during 1981.

The economic significance of this commodity to our state is well known to all segments of our economy since it produces more than one billion dollars in gross farm income annually, thus representing almost 35 percent of the income derived from all farm commodities. The many other economic aspects or contributions to our state and national economy are well known and documented.

TOBACCO GROWERS HAVE HISTORY OF MAKING PROGRAM ADJUSTMENTS

During the more than four decades in which the tobacco program has operated, growers have always demonstrated a willingness to make those adjustments that would strengthen and provide the necessary safeguards. While keeping the program updated, the underlying objectives have also been to maintain fair farm income.

Some examples of past changes that have been supported by tobacco growers are:

1. The method for determining price supports was modified to base the level of support on the level established for the 1959 crop adjusted annually thereafter as the basis of a three-year moving average of the parity index, which is the procedure currently employed for determining the price support.

2. In 1957, a variety discount program was implemented to encourage quality production to meet buyer demands.

3. 1961–62, the lease and transfer program was developed to permit existing allotment holders to lease allotments within the county.

4. In 1965, an acreage-poundage replaced individual farm acreage, allotments with acreage and poundage quotas for each farm. This provided a better means for balancing supply and demand and maintaining high quality.

5. In 1977, changes were made in grade standards including tightening of waste tolerance procedures.

6. In 1978, in response to a surge in imports a voluntary "four-leaf program" was adopted to encourage growers not to harvest the four lower leaves on each stalk as a means of reducing the quantity of lower leaves.

7. A further response to this import surge occurred in 1980 when price supports were terminated on eight downstalk grades to prevent a build-up of loan stocks.

It would appear from the very beginning of the tobacco program that growers wanted the program operated in a manner that would "result in no net cost to the taxpayers other than such administrative expense as is incidental to the implementation of any commodity program."

SOME RECOMMENDED CHANGES IN THE CURRENT TOBACCO PROGRAM THAT SHOULD RESULT IN NO NET COST TO TAXPAYERS AND PROVIDE FOR AN OR E LY AND EQUITABLE TRANSITION OF ALLOTMENTS AND QUOTAS WITHIN THE CONTROL OF MORE ACTIVE PRODUCERS

The North Carolina Farm Bureau Federation held numerous tobacco meetings over the State during 1981 in order that our growers have an opportunity to express themselves on any program changes. In addition to our State meetings, our farm bureau tobacco leaders have met many times with the farm bureau flue-cured and burley tobacco States. The most recent meeting with other farm bureau tobacco States was on January 25, 1982 in Columbia, S.C. We have been striving for tobacco States unity and a united front for tobacco program changes or modifications. The past has mandated that these operating principles must continue in the future.

The North Carolina Farm Bureau Federation voting delegates at our last annual meeting in Raleigh, N.C. in December 1981 addressed many tobacco issues. Today I would like to report a few of the recommendations that relate to what we consider to be constructive changes or modifications in the current program:

1. When excessive stocks of certain grades accumulate in a cooperative association (based on type), the secretary with the advice of a producer advisory committee shall have authority to adjust the price support loan rate at 65 percent of normal increase for a three-year period to help assure that a no net cost to tobacco program is achieved and maintained.

This proposed change should provide an incentive to produce those grades in greater demand, afford some price protection or insurance for growers who produced under abnormal circumstances, and help insure the cooperative association against future losses.

We would also hope that any decreases in grade loan level would encourage the increase of domestic utilization while discouraging the escalating tobacco imports into our country.

2. We support a grower controlled assessment by kinds subject to an appropriate limit to underwrite possible future losses upon sale of tobacco received under loan.

We feel that this approach for tobacco is somewhat precedent setting and demonstrates an attitude by growers to move in the direction of making the tobacco program self-supporting.

This grower assessment program that we envision would assure the taxpayers of our nation that we are prepared to immediately finance any potential principal and interest losses occurring in the operation of our loan program. We also feel that some type of grower entity or organization should be granted authority to receive and administer the grower assessment funds.

3. We recommend the sale of tobacco allotments within county boundaries to farmers actively engaged in tobacco production with the stipulation that total acreage allotment cannot exceed 50 percent of the tillable land.

In our opinion, an alloment holder should be given the opportunity to make an orderly transfer of allotment and thereby be entitled to receive some equity from this transaction. The sale of tobacco allotments would not be a first since sales have been provided for other crops such as cotton and peanuts.

4. We support the retention by the producer loan associations of a reasonable reserve from earnings on future sales to help offset possible future losses.

In order to fully implement this policy we would recommend that the crop pools be commingled for more than one year.

5. We recommend the continuation of the lease-transfer program with a provision that the allotment will be planted back on the farm of origin one out of three years with sufficient tillable land to maintain the allotment.

This should respond to the critics who contend that all allotment holders should have tillable land for production. Implementation of this recommendation may prevent future quota losses such as will occur in peanuts for 1982 as enacted in the 1981 farm bill. Peanut allotment holders had no warning and now find that where quotas were not produced back on the farm at least one year out of the previous three years the total quota may be lost.

6. We recommend that all domestic and foreign buyers be allowed to buy direct from our flue-cured tobacco stabilization corporation.

We feel a producer association such as our stabilization should be authorized to make direct sales if an opportunity arises. We are more than anxious for the current sales organizations to perform this service but we do not think an association should be denied this privilege and maintained in a rigid position of being 100 percent dependent on others to make sales.

7. We are opposed to any type of loss insurance fund being collected from cigarette excise taxes.

We are opposed to any future increases in excise taxes that would include a special tax for the tobacco program operation. This could be the beginning and establish a pattern for many noble and worthwhile causes. It might solicit consumer opposition as well as opposition from some segments of the tobacco industry.

8. We recommend that leasing of any or all allotments be authorized only during the period from January 1 to March 1 of each year. This would eliminate fall leasing, thereby discouraging any possibility of speculation and over-production. This action could also have a stabilizing effect upon rental rates for the new crop year.

9. We recommend that the individual poundage and acreage ratio be adjusted at least every five years. Under the current national average yield goal, many individual growers and growers in certain geographical localities are being placed in a position that encourages over-production.

10. We urge the implementation of administrative action that will discourage and prevent warehousemen and others from becoming or acting as brokers in the lease and transfer of tobacco poundage. We feel that any leasing and transfer of poundage for purposes of warehouse designation or speculation is detrimental to the future well-being of our tobacco program.

11. We support burley tobacco loose-leaf sales with USDA grades and price supports for the total quota.

Mr. Chairman, tobacco growers have always demonstrated that pioneering determination to do whatever is necessary and reasonable to preserve and improve their program. Our goal has always been and continues to be a reasonable profit for our commodity in the marketplace. Tobacco growers accept the challenge and mandate that we operate a net cost program.

Thank you.

[The following was submitted by Lloyd Massey, North Carolina State Grange; see. p. 51 for oral reference:]

JANUARY 28, 1982—RALEIGH, N.C.

The following recommendations were made by the North Carolina State Grange Tobacco Committee at the above meeting:

1. Recommended that the Secretary of Agriculture be authorized to adjust price supports on non-competitive grades prior to preparation for 1982 market

season. Reduction should not be more than 35 percent of increase for 1982, and future years as necessary to make grades competitive, and that Secretary make such changes after consultation with farm leadership from all farm organizations in tobacco area and Stabilization.

2. The Grange recommends that tobacco growers be assessed up to one cent on each pound to build up reserve fund to cover any losses that may occur in the price support program, beginning with 1982 crop and that this fund be in custody of Flue-Cured Tobacco Stabilization and that it be reviewed each year by staff of Stabilization to determine need for any adjustments. State Grange also strongly opposes any increase in excise tax or any other taxes to finance any losses that may occur in the price support program.

3. The State Grange recommends the selling of allotments may be permitted within a county, and that such allotments cannot be resold within three years; and that the total allotment cannot exceed 10 percent of tillable cropland.

4. State Grange recommends that the lease and transfer program be continued under the present law.

5. The State Grange recommends that the lease and transfer program be limited to the period from January 1 to April 15 each year.

STATEMENT OF HUGH C. KIGER, EXECUTIVE VICE PRESIDENT, LEAF TOBACCO EXPORTERS ASSOCIATION AND TOBACCO ASSOCIATION OF UNITED STATES

Mr. Chairman, my name is Hugh C. Kiger. I am the Executive Vice President of Leaf Tobacco Exporters Association and Tobacco Association of United States.

Members of these associations purchase about 70 percent of the tobacco grown in the United States and export practically all of the U.S. unmanufactured tobacco shipped overseas. Our members export practically all types of tobacco, however, because of time limitations I will confine my testimony today to the Flue-Cured tobacco program.

It is the purpose of our associations to protect and promote the market for American Leaf Tobacco. Each season our member firms spend millions of dollars and send hundreds of salesmen overeas and employ hundreds of supplier agents primarily for the purpose of selling U.S. tobacco. Over the years we have strongly supported an open international trading system and have worked diligently to achieve better access for U.S. tobacco on foreign markets.

Mr. Chairman, we're here today because the tobacco program is in serious trouble. It's in trouble economically because we can no longer assure our foreign and domestic customers an adequate supply of high-quality U.S. leaf at competitive prices. It's in trouble politically as evidenced by the recent close votes in the Congress on amendments to abolish the program.

The LTEA believes that the survival of the tobacco program is vital to the future health of the tobacco industry and to the economies of the many small rural communities that depend on tobacco for a livelihood. But, the program will not survive, it cannot survive unless it is brought into line with the realities of the 1980's. This requires that we make major changes in the tobacco program and that we make them now before the problems get worse.

The tobacco price support is based on an archaic parity formula which has little to do with the cost of producing tobacco. Under this formula, tobacco prices have escalated at such a rapid pace that U.S. tobacco has lost its competitive position in world markets. (See Appendix A.) As a result, our foreign customers have begun to look elsewhere for supplies. (See Appendices B, C, D, E.) Countries like Brazil, India, Canada, South Korea, Zimbabwe and Thailand have responded by increasing production and improving quality. In the early Sixties, the United States produced forty-one percent of world production of Flue-Cured tobacco. That has declined today to only twenty-two percent, and the U.S. decline occurred at a time when world production was expanding by 1.5 billion pounds. Similarly, the U.S. share of world exports of unmanufactured Flue-Cured tobacco has declined from about sixty percent of the world market in 1966 to twenty-eight percent in 1981. The USDA projects further declines in the period ahead if no changes are made in the program. (See Appendix F.) In just the last seven years since 1973, domestic use has declined by more than 250 million pounds and exports are down by over 100 million pounds.

As disappearance (domestic use plus exports) has declined, stocks of overpriced leaf have accumulated in Stabilization inventory and pressures have increased to cut domestic production. The effective Flue-Cured quota in 1982 will be down almost twelve percent from the 1981 level. With normal weather, U.S. maretings of Flue-Cured tobacco are estimated at about 940 million pounds, which is 100 million pounds less than estimated 1982 disappearance, 200 million pounds less than 1981 marketings, and nearly 500 million pounds less than 1975 marketings. Unless this program is modified so that this trend can be reversed, the U.S. could be producing only 400 to 500 million pounds by the end of this decade. It's a vicious cycle of higher support prices, reduced sales and lower production quotas. And, the big loser in this process is the grower. If the tobacco isn't produced, the rest of the industry, warehousemen, dealers, manufacturers and exporters are losers too.

The grower can't live with continued reductions in quota. As the quota is cut, farmers are forced to lease in additional pounds in order to operate at peak efficiency. If less pounds are available, as is the case in 1982, the cost of leasing quota must go up. Lease costs of forty to fifty cents per pound were commonplace in the Flue-Cured area last year, and these are expected to go to sixty or seventy cents a pound this year. This is money that is paid up front before the crop is even planted. In addition, as growers are forced to reduce plantings, their cost will increase as overhead (machinery, bulk barns, etc.) will have to be spread over fewer pounds. This means lower volume for processing which will also affect factory operating margins for dealer companies.

The basic problem is price. USDA statistics show that U.S. Flue-Cured tobacco is price supported at fifty percent above the cost of production (excluding land, management and lease costs). (See Appendix G.) This compares to peanuts supported at 121 percent of cost of production, corn at 111 percent and wheat at 85 percent. And, the end is not in sight. Unless the formula is changed this year, price supports for the 1982 crop will increase by another eleven percent and the more desirable export quality tobacco will be supported at more than $2.00 per pound. By 1983 the average support price of Flue-Cured tobacco will be almost $2.00/lb. (See Appendix H.)

The quality of U.S. leaf has also declined noticeably in recent years due in part to the way price supports are operated. In 1973 about 84 percent of the U.S. Flue-Cured crop was composed of mature and mellow grades; in 1981, which was considered a good crop, this figure was only 42 percent. (See Appendix I.) The plain fact, Mr. Chairman, is the grower has no incentive to produce high-quality leaf when he can sell to the Pool at the support price and clear 50 percent on the deal.

What changes are needed in the program? The price support formula should be changed to bring the price more in line with grower costs and with the competitive realities of the marketplace. We need a more market-oriented program. (See Appendix J.)

The best way and perhaps the only way, to ensure that the program is run on a cost-free basis to the taxpayer is to modify the price support formula so that tobacco can be marketed competitively instead of stockpiled in the Pool. Such an approach would deal with the real causes of the problems—helping eliminate the surpluses rather than financing their subsequent disposal.

Specifically, the LTEA recommends:

1. Stabilization of support for the 1982 crop at the 1981 level.
2. Provide discretionary authority to the Secretary to set the support price for 1983 and subsequent crops at 115 percent to 130 percent of the cost of production, excluding land, management and lease costs.
3. Provide the Secretary authority to further adjust support prices for individual grades of tobacco which he determines to be in excess supply to encourage utilization of such tobacco domestically or for export.

This action would bring the support price of tobacco more in line with other agricultural products while still guaranteeing producers the safety net protection of a minimum of 15 percent margin over cost. At home the lower support levels would provide the price flexibility needed to find markets for grades of tobacco which are now in oversupply, and to prevent the buildup of Pool stocks in the future. This would virtually guarantee the program could be run at no cost to the taxpayer. Abroad it would tell our foreign customers that the United States intends to be a competitive and reliable supplier of tobacco and would signal our intention to remain a major factor in world tobacco markets. At the same time the lower U.S. support prices would make it less attractive and profitable for foreign countries to expand production and would encourage the substitution of U.S. leaf both domestically and in world markets with imports from foreign countries. Reducing the gap between United States and foreign prices would improve our competitive position and provide a basis for reversing the current downtrend in U.S. production, domestic consumption, and exports. Increasing sales of U.S. tobacco to domestic and foreign manufacturers offers the only real hope for expanding U.S. production.

Currently allotment holders outnumber Flue-Cured tobacco growers by a ratio of about four to one. While both have a say with respect to the program, their interests are not identical; allotment holders seek to maximize income from leasing, and leasing income increases when quotas are reduced. This sets in motion a cycle of events which works against grower interests and which is likely to continue as long as non-growers are permitted to hold allotments.

The only way to forestall legislation to eliminate allotments entirely is through changes which would rquire allotment holders to grow tobacco as a condition of owning allotments. Authority for sale of allotments would allow current holders who do not choose to grow tobacco an opportunity to recover their equity.

With respect to quotas, LTEA recommends:

1. Quotas should be in the hands of actual growers in the traditional producing areas.

2. Authority should be provided for the sale of quotas within counties to growers with sufficient tillable acreage.

Mr. Chairman, we believe that our recommendation on quotas is consistent with proposals supported by a number of the major farm organizations.

Mr. Chairman, we have been given an opportunity, perhaps a last opportunity, to make the kinds of changes in the tobacco program which are necessary to ensure that it can survive economically and politically. We're at "D" Day, there are no tomorrows, and there is no time for halfway measures or band-aid solutions.

We need to act now to eliminate the abuses of the allotment system by restoring the original intent of the law—that growers hold allotments. (See Appendix K)

And even more important, we need to act now to halt further escalation in price supports for the 1982 crop so that we can begin on the road to recovering our export position in world markets and to increasing production in the United States of high quality tobacco. This will ensure the continued prosperity of the grower while at the same time assure the taxpayer that the program can be run on a cost-free basis.

The future of the leaf tobacco industry is in the hands of all of us. I hope we are up to the task.

APPENDICES

Appendix A—Unmanufactured Flue-Cured Tobacco: Average Export Values.

Appendix B—Statement of Mr. R. A. Garrett, Chairman, Imperial Tobacco Limited.

Appendix C—Letter of Mr. P. H. R Mercer, Leaf Manager, Imperial Tobacco Limited.

Appendix D—Letter of Messrs. W. Buckman and D. Fahl Martin Brinkmann AG West Germany.

Appendix E—Letter of Mr. Tor Seim, Managing Director, J. L. Tiedemanns Tobakstabrik Norway.

Appendix F—Flue-Cured Tobacco, U.S. Share of World Production and Exports.

Appendix G—Flue-Cured Tobacco: Production Costs Per Acre, United States, Preliminary 1980 and Projected 1981.

Appendix H—Price Support Levels For Flue-Cured and Burley Tobaccos, 1982–87 (Projected).

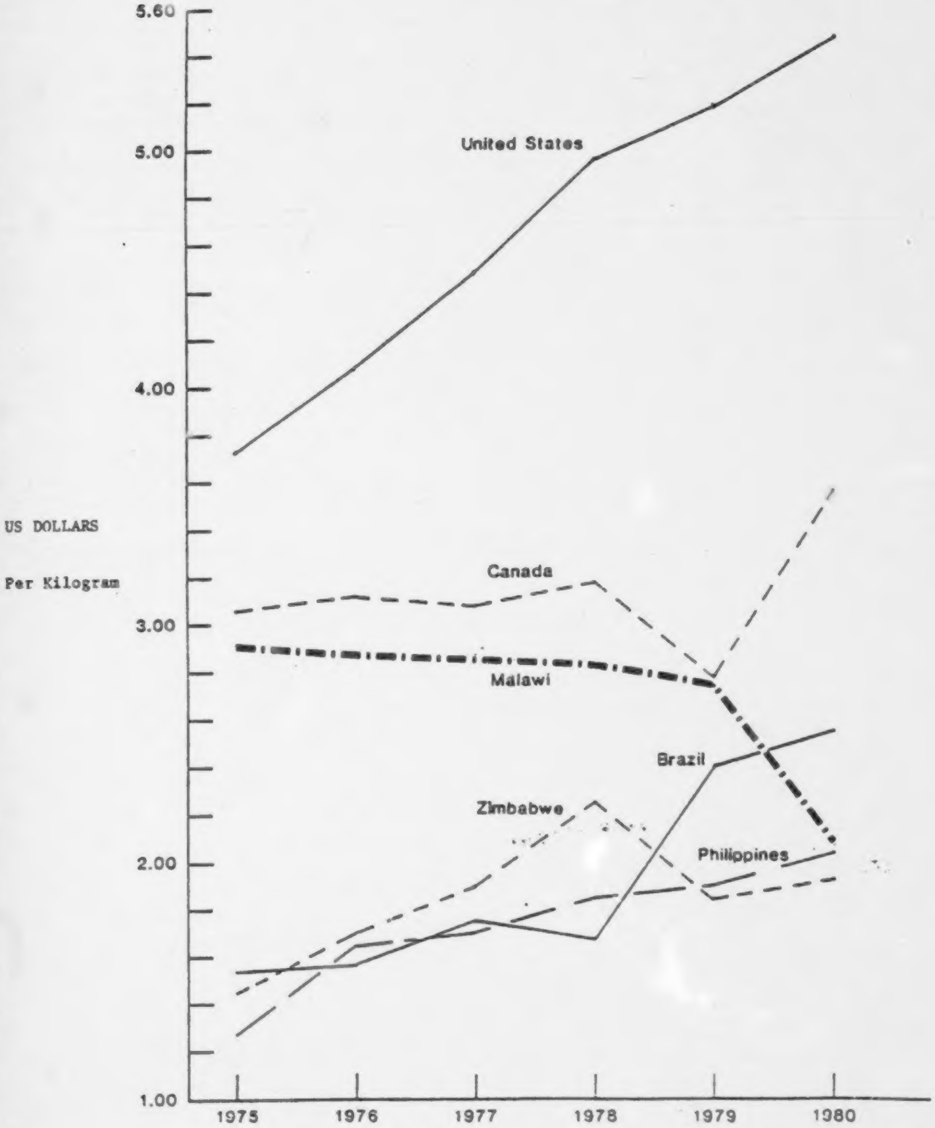
Appendix I—Percent of Flue-Cured Crop Composed of Mature and Mellow Grades, 1973–81.

Appendix J—Remarks by Robert Delano, President, American Farm Bureau Federation, Entitled "A Realists Viewpoint." May 30, 1980.

Appendix K—Statement of USDA Entitled "A Brighter Future For Peanut Growers," April 21, 1981.

APPENDIX A

UNMANUFACTURED FLUE-CURED TOBACCO : AVERAGE EXPORT VALUES



APPENDIX B

STATEMENT OF MR. R. A. GARRETT, CHAIRMAN, IMPERIAL TOBACCO LIMITED

Imperial has been a purchaser of American flue-cured tobacco for over 70 years and for much of that time occupied the position of the largest single export buyer. However, in recent years our purchases have dropped substantially and this year we will purchase roughly 68,000,000 pounds less than our average yearly purchase during five year period 1961-65; 80,000,000 pounds less than our average yearly purchase in five year period 1966-70; 39,000,000 pounds less than our average yearly purchase in five year period 1971-76; and 13,000,000 pounds less than last year.

We have also reduced our year-round monthly paid staff by approximately 50 percent since January 1, 1971 and closed our processing facility in Greenville in order to get our overheads in line with the size of our present purchases in the U.S.

The Japanese and German tobacco industries now rank at the largest importers of American flue-cured tobacco, but may well be reconsidering the level of their purchases, certainly this appears to be true in the case of Germany where usings of U.S. leaf are reported to be on the decline.

One of the main reasons for this reduction in our offtake is that we consider we are no longer getting the value for money which we expect from our American purchases. The amounts of good quality tobacco reasonably handled and graded which constitute our requirements and those of other export buyers appear to diminish each year, and the demand for the limited amounts available forces prices up to unrealistic levels. At the same time, the ability to be more selective in our purchases is reduced, and grade standards have to be lowered to obtain the required amounts.

We acknowledge that as far as the 1977 crop is concerned poor growing conditions have further reduced the amounts of desirable tobacco available, and we now expect to buy only half of our original requirements. However, the current crop does serve to accentuate the problems we, as buyers, have been facing for several years.

It should be pointed out that high prices and short supply of export types of tobaccos being grown in this country encourages many other countries throughout the world to expand their production and ensures their profitability.

The problems faced by U.S. exporters are not insurmountable but require the combined efforts of everyone concerned in the U.S. tobacco industry to produce the changes required. The solution lies in the hands of the people producing and marketing the crop, and we believe it is in their own interests to safeguard their export markets.

APPENDIX C

IMPERIAL TOBACCO LIMITED,
LEAF DEPARTMENT,
Bristol, January 19, 1982.

Hon. JOHN BLOCK,
Secretary of Agriculture,
U.S. Department of Agriculture, Washington, D.C.

DEAR SECRETARY BLOCK: We have recently reviewed a table entitled "Price Support Levels for Flue-Cured and Burley Tobaccos, 1982-87 (Projected)." These projections were prepared by Dr. Robert H. Miller, Agricultural Economist, National Economics Division, Economic and Statistics Service of the United States Department of Agriculture. The projections contained in the table should, we believe, be of great concern to all involved in the export of tobacco from the U.S.A.

In our view this continued escalation in prices will do great harm to U.S. tobacco exports, when coupled with the present policy of increasing support on leaf grades and reducing that on lugs and primings in computing average support levels.

Imperial Tobacco has always used a significant volume of U.S. tobacco but during the last few years this volume has been reduced and substitutions have been made with less expensive tobacco from other countries.

We are anxious to continue to use U.S. tobacco and would urge you and the present Administration to do all possible to make your tobacco more competitive. If present trends continue we believe that your export trade will continue to decline in the face of increasing competition.

Yours sincerely,

P. H. R. MERCER,
Leaf Manager.

APPENDIX D

JANUARY 8, 1982.

Hon. JOHN BLOCK,
Secretary of Agriculture,
U.S. Department of Agriculture, Washington, D.C.

DEAR SECRETARY BLOCK: For a number of years the leaf tobacco situation in the United States has been of great concern to many segments of the industry, leaf tobacco exporters and their foreign customers alike. The reason being a continues decline of quality with ever increasing prices.

As the 3rd largest cigarette manufacturer in Germany and the largest producer of smoking tobacco for pipe and roll-your own cigarettes we are one of the major importers of U.S.-grown flue-cured, Burley and dark-fired tobaccos. Record-breaking prices paid on the American auction-floors have placed U.S.-grown tobaccos in a rather unfavorable position. This is particularly true for flue-cured tobaccos facing tough competition from Brazil, Zimbawe, South Korea and Canada. For our purchases of top quality U.S. leaf from the 1981 crop for example we had to pay in excess of $260,— per 100 lbs. packed weight delivered seaboard. This is equivalent to $573,— per 100-kilo. Freight to Germany and insurance in the amount of $12,67 added plus customs duty of approx. $32,68 will bring the price to $618,35 delivered Bremen, duty paid or the equivalence of $280,50 per 100 lbs. For comparable tobaccos from Brazil the price was $396,—, for those from Zimbabwe $525,—, from South Korea $457,— and from Canada $447,— all prices per 100-kilo delivered Germany duty paid except for Zimbabwe. Tobacco from Zimbabwe when entering E. C. countries is not eligible for customs duty.

When you compare these prices you can well understand why we are very much concerned with the future of U.S. tobaccos. Especially so when already now considerable additional increases for future years are projected. These projections entitled "Price Support Levels for flue-cured and Burley tobaccos" were prepared by Dr. Robert H. Miller, Agricultural Economist, National Economics Division, Economic and Statistics Service of the United States Department of Agriculture. Particularly detremental to the foreign customers is the fact that the present policy of increasing leaf grades more than lugs and priming when compiling average support levels has not been changed yet, thereby placing all the burden on the traditional export grades.

Last not least let us touch briefly on the subject of quality. In all four countries mentioned above the quality of flue-cured tobaccos was not only upheld but as in the case of Brazil was substantially improved. In the United States however quality over the years has declined. This because of poor growing practices in general but also because the trend towards higher yielding and more disease-resistant varieties that produce less flavorful tobacco once famous for Georgia and the Carolinas continues. Finally there is the ever increasing habit of nesting tobacco, more commonly done in Georgia than elsewhere which can only be described as plain fraud by the farmer, a practice which is bound to effect the sale to customers overseas.

Considering all this as a final resource we would therefore ask you and the Reagan Administration to do everything in your power to take all steps necessary to help make U.S. tobacco more competitive. The tobacco program needs to be changed to make it more market-oriented, which we understand is consistent with your farm policy objectives.

We will appreciate your interest and cooperation you may want to take in this matter of mutual interest.

Sincerely yours,

MARTIN BRINKMANN, AG.

APPENDIX E

J. L. TIEDMANNS TOBAKSFABRIK,
January 6, 1982.

Hon. JOHN BLOCK,
Secretary of Agriculture,
U.S. Department of Agriculture, Washington, D.C.

DEAR SECRETARY BLOCK: We have recently received a schedule entitled "Price Support for Fluecured and Burley Tobaccos 1982–1987 (Projected)". These projections, which were prepared by a noted economist of your Department (Dr. Robert H. Miller, Agricultural Economist, National Economics Division, Economic and Statistic Service of the United States Department of Agriculture), show that by 1987 the average support price, on for example fluecured tobaccos, will have increased 65 percent on 1981 rates.

Unfortunately "average" support price increases do not give the full story, since it has been customary to increase export style tobaccos (leaf grades) more than the less desirable tobaccos, such as lugs and primings. Furthermore, with the general decline in quality of fluecured crops there will be less quality tobacco to stand the rap for the undesirable styles.

Even if these predictions and fears should not sound the death knell of US tobacco exports, at least to this country, they certainly foreshadow a very drastic reduction of such tobaccos in our blends—something we are very loath to do since our brands have been built around good quality US tobaccos.

We would therefore respectfully ask you and the Reagan Administration to do everything in your power to make US tobaccos more competitive on the export market. It would seem that the Farm Bureaus of at least North Carolina and South Carolina are prepared to accept changes, including price adjustments, and are awaiting your nudge in the right direction.

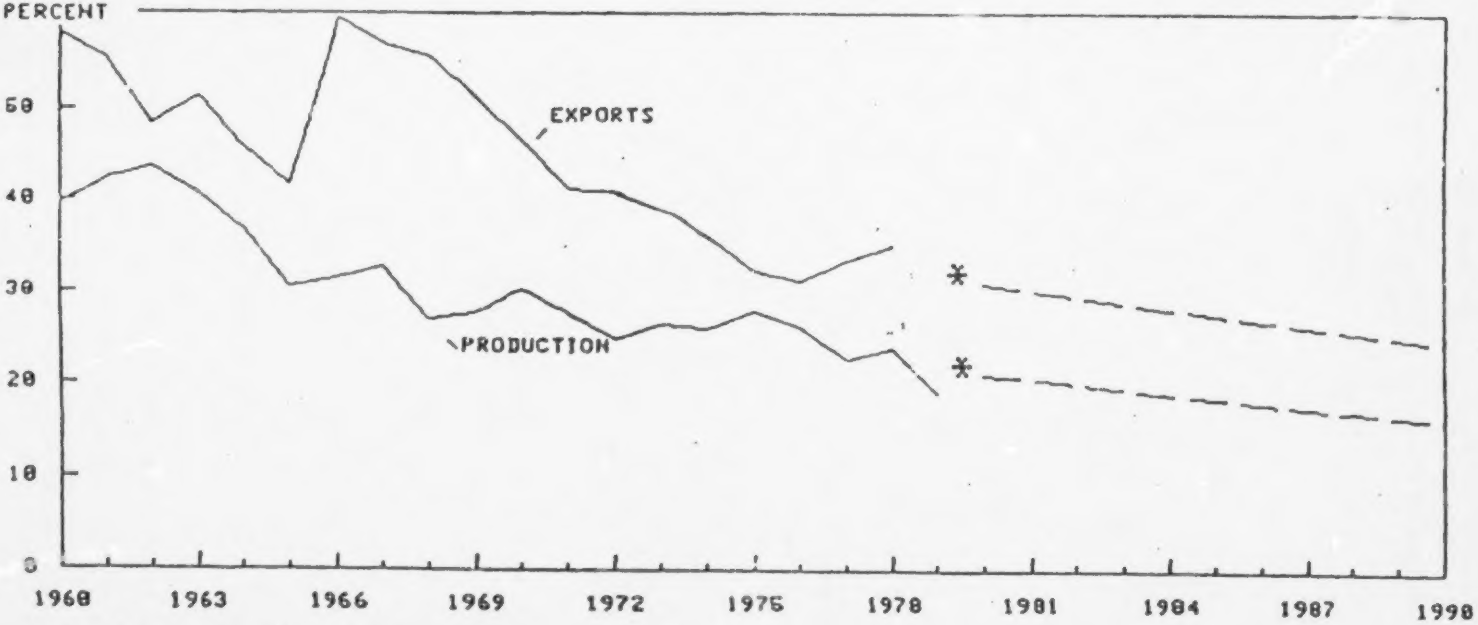
We will appreciate your interest and cooperation in helping to resolve this difficult problem.

Sincerely yours,

TOR SEIM,
Managing Director.

APPENDIX F

FLUE-CURED TOBACCO: U.S. SHARE OF WORLD PRODUCTION AND EXPORTS



* USDA PROJECTED FROM ACTUAL DATA.

APPENDIX G

TABLE 4.—FLUE-CURED TOBACCO: PRODUCTION COSTS PER ACRE, UNITED STATES, PRELIMINARY 1980 AND PROJECTED 1981

[In dollars per acre]

Cost item	1980	1981
Variable	1,319.84	1,434.01
Labor [1]	540.97	564.10
Plant bed materials [2]	42.69	48.14
Fertilizer and lime	89.75	97.28
Pesticides [3]	74.15	80.50
Sucker control	33.06	37.12
Fuel and lubrication [4]	64.19	75.28
Curing fuel and electricity [5]	255.88	289.59
Repairs [6]	57.75	62.21
Marketing fee	85.75	95.37
Other [7]	57.61	63.64
Interest	18.04	20.78
Machinery and barn ownership	327.00	374.08
Replacement	167.38	187.64
Interest	130.47	154.08
Taxes and insurance	29.15	32.36
General farm overhead	35.42	39.40
Management [8]	168.23	184.75
Total, excluding land and quota	1,850.59	2,032.24
Land and quota allocation: Share-rent [9]	706.50	784.51
Yield per acre (pounds)	1,971	1,987

[1] Includes operator, family, exchange, and hired labor valued at prevailing hired wage rates.
[2] Includes plant bed seed, fertilizer, pesticides, and custom fumigation.
[3] Includes insecticides, herbicides, and fungicides.
[4] Includes tractor and machinery fuel and lubrication.
[5] Includes cost of LP gas, fuel oil, or diesel and electricity used to cure tobacco.
[6] Includes machinery, equipment, and barn repairs.
[7] Includes sticks, twine, sheets, cover crop seed, and tobacco crop insurance.
[8] Based on 10 percent of above costs.
[9] Based on net share-rent approach.

APPENDIX H

PRICE SUPPORT LEVELS FOR FLUE-CURED AND BURLEY TOBACCOS, 1982-87 (PROJECTED)

[In dollars per pound]

Year	Flue-cured	Burley
1982	1.76	1.81
1983	1.94	2.00
1984	2.12	2.18
1985	2.28	2.35
1986	2.45	2.52
1987	2.62	2.70

Note: The projections shown here are below those distributed in March due to lower prices for feed and feeder livestock, which are components of the parity index.

APPENDIX I

Percent of Flue-cured crop composed of mature and mellow grades, 1973–81

	Percent
1973	84
1974	83
1975	77
1976	69
1977	36
1978	50
1979	53
1980	38
1981	42

SOURCE: Tobacco Division, AMS, USDA.

APPENDIX J

REMARKS BY ROBERT DELANO, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

A REALIST'S VIEWPOINT

I'm both an optimist and a realist when it comes to tobacco.

I find it easy to be optimistic about the future of the industry—providing there are enough realists within it who are willing to examine our problems and work at solving them.

Let's look at the facts.

Because of long-time, deeply embedded federal supervision, tobacco production has largely been cut off from market reality.

Per capita consumption of cigarettes and some other tobacco products continues to decline in the United States while production stays the same or less.

Our quality is tops, but quality alone won't sell our crop.

Because our country is growing, population increases have helped offset some of the market decline. This won't continue. The line on our U.S. consumption bar-charts has been about flat for the past four years.

Those producers who are satisfied with the way things are now must consider a number of very real possibilities.

What happens when a really good "synthetic" leaf is invented? Perhaps one with good taste and little tar? The stakes are enormous, and there are laboratories all over the country working to do this.

What happens when our domestic companies continue to import more and more foreign-produced tobacco for use in manufacturing cigarettes for the U.S. market?

There are about 520 million pounds of U.S. flue-cured tobacco under loan in this country. What happens if markets should restrict further and your association becomes the only real market?

Consider the added public criticism we would face from taxpayers—

The future for tobacco, as is true of the future for any other farm crop in a free society, lies in meeting the needs of the market.

As realists, we face three very real possibilities.

A continued decline in our markets and in the importance of the tobacco crop . . .

A holding pattern—in which we continue to search for grains to offset our losses . . . or,

An aggressive production and marketing program in which we move out into the real world.

Right now I would say most of the industry is in a holding pattern. The decline set in some time ago, but we haven't faced up to it yet.

While we have been marking time, our domestic markets have shrunk and other countries have improved production to out-compete us in many markets.

Each year the U.S. share of the world tobacco market drops. This is a signal that something is drastically wrong with production methods which have become static under the present tobacco programs.

We spend too much time reacting to criticism and too little time reacting to competition.

Our production system must be released to allow response to world markets and world competition.

We must be ready to meet the new competition that is expected to arrive with increased stability in the Rhodesian government and from the modern technology in use in Brazil.

That's among the reasons Farm Bureau recommends that domestic and foreign users be allowed to buy direct from tobacco cooperative loan associations.

We must be considerate of world markets in other ways.

Right now there is concern about imported cigar wrapper leaf from some of the Latin-American countries. U.S. producers need the leaf, but fear that some of it ends up as cigar filler.

Rather than allow this issue to emerge as a full-scale international problem where it might attract unwanted attention, Farm Bureau is working directly with the Foreign Agricultural Service—and others—to solve the problem.

We are seeking a better description of what constitutes wrapper tobacco. We need to know just how much wrapper the U.S. cigar industry needs and to use quotas to cover only that amount.

Farm Bureau remains vitally interested in the imported scrap tobacco issue. We believe that much of the so-called "scrap" is actually good quality material wrongly classified.

In keeping with the "John Sledge" petition of last fall, we urge the U.S. Customs Service to re-examine and re-define this material. This is in the process now.

We must exploit whatever inherent comparative advantage we have in tobacco production in this country.

We must ask ourselves why other U.S. crops can compete so much better than tobacco in world markets, and then be brave enough to allow our industry to move toward those conditions.

Meanwhile, Farm Bureau will continue to defend the U.S. consumers' right to use tobacco products, and to defend the farmers' right to grow and market tobacco crops.

We will join you in telling citizens everywhere—as Paul Harvey did recently—how federal, state and local governments receive about $1.30 in taxes for every tobacco stalk grown.

People need to know the true value of the tobacco crop both in dollar sales and in taxes.

People need to know the economic and social value of tobacco to your communities.

The export value of U.S. tobacco leaf and products now tops two billion dollars annually. We need to tell people about this.

Those export figures are small compared to what they could be and we need to examine our programs to take advantage of every opportunity. We should be bold enough to have an in-house study on our programs.

Under those conditions we would out-produce and out-compete any country in the world.

Instead of our industry becoming ingrown, we would move out where we belong.

Our tobacco crops would bring the high incomes we need.

That way you can build the future for your children and grandchildren, rather than play it from year to year.

That's the exciting, positive kind of future I would like to see for the tobacco industry.

APPENDIX K

A BRIGHTER FUTURE FOR PEANUT GROWERS

WHY CHANGE THE PEANUT PROGRAM?

To increase the market for peanuts, to cut the costs of growing peanuts, to make a brighter future for those who can grow peanuts the best, and to reduce Government costs.

HOW WOULD THE 1981 FARM BILL DO THAT?

By unhitching peanut acreage from allotments. Acreage allotments are "growing rights" based on a farm's past history.

The people with peanut acreage allotments often aren't the same people who are now raising the peanuts. About 70 percent of the Nation's 4 billion pounds of peanuts are raised on allotments rented or leased from someone else. Those leases have become very expensive—from about $30 per acre in Texas to about $200 per acre in Georgia.

About 40 percent of the peanuts are grown in Georgia. Alabama, Texas, and North Carolina each grow about 10 to 15 percent of the Nation's peanut crop. Oklahoma, Virginia, and Florida each grow about 5 to 7 percent of the crop.

Expensive leasing of allotments increases the costs of raising peanuts in each of those states.

HOW DOES THAT COME ABOUT?

Because the allotment is a "right" to grow peanuts. There are heavy penalties for growing peanuts without an allotment. If you have the ability and the desire to grow peanuts but don't have an allotment, you have to pay someone with the "allotment rights" in order to be able to grow peanuts without a penalty.

HOW DID THE OWNERS OF THOSE "RIGHTS" GET THEM?

The land they own happened to be growing peanuts when the Government peanut acreage control program went into effect. The control program "allotted" growing rights to the owners of the land then growing peanuts. Those rights have passed along from landowner to landowner. Some new "rights" have been parcelled out gradually over the years as the peanut market expanded at the rate of about 2.5 percent a year.

Some existing allotments have been sold—to new owners—but, by law, only within the same county.

SO THE GOVERNMENT REALLY PROTECTS THOSE "RIGHTS"?

The present Government farm program established the allotment "rights" to the land, and maintains them as a peanut growing "license" to the owner of the land which historically grew peanuts. That "license"—the "growing rights"—is what the people must lease who are willing and able to grow 70 percent of today's peanuts.

AND THE EFFECT OF THAT?

Those leases are expensive, so the people who raise the peanuts have to get a higher price for their peanuts in order to make ends meet. Those higher prices, which are set at a minimum level by the Government, make peanuts more expensive and less competitive.

SO THE GOVERNMENT BOTH ASSIGNS THE "GROWING RIGHTS" TO THE LAND AND THEN GUARANTEES A MINIMUM PRICE FOR THE PEANUTS GROWN ON THOSE "RIGHTS"?

Correct. It is a tight control program. It was established in the 1930's to help the farmers who grew peanuts, but it has drifted away from the original intent. The allotment and the growers are largely different people now.

The effect is to increase the cost of growing peanuts, increase peanut prices, shrink peanut markets, keep able and willing farmers from growing peanuts, reduce peanut exports, and encourage foreign countries to compete with us.

SO THE PRESENT PROGRAM ALSO PROPS UP PRICES IN OTHER COUNTRIES?

It does, by making us less competitive. The present program has outlived its usefulness. It shackles us with an antiquated 1930's program in a 1980's world. And worst of all, it keeps peanuts from competing in what could be a more rapidly expanding market.

By contrast, soybeans, an oilseed crop which has never had allotments, has become a miracle crop. It is grown by those who can grow it best. No one owns the "rights" to grow soybeans. But both the number of growers and the land planted to soybeans have increased dramatically. Soybeans have been leaping forward, while peanuts have been shackled and stifled by their own Government program, which ironically was designed to "help" the peanut growers it now holds back.

The peanut "allotment franchises" have become expensive to peanut growers and costly to consumers. They have become an unneeded burden to those who are growing 70 percent of today's peanuts.

WOULD THE PROPOSED NEW PROGRAM CHANGE ALL THIS IMMEDIATELY?

The Administration's new program would provide a gradual, reasonable change to a new system that would expand markets for peanut growers. That change was started by the 1977 Farm Bill and would be stepped up by the new 1981 Farm Bill.

The 1981 Farm Bill would eliminate allotments. The present allotment owners would maintain a poundage quota instead—in effect, a share of the domestic consumer edible market (about half of the peanuts grown). That quota would entitle present allotment owners to sell a quantity of peanuts that would qualify for Government price supports at the present level of $455 per ton, or more as determined by the Secretary of Agriculture.

That poundage quota would decrease by 10 percent a year, instead of the present 5 percent a year.

That way, the present "growing rights" would be phased out gradually, permitting owners to adjust as the peanut market also adjusted.

WHAT ABOUT THOSE GROWERS WHO DON'T HAVE AN ALLOTMENT, AND THUS NO QUOTA?

Anyone could grow as many nonquota peanuts as he wished. Those nonquota peanuts could be sold for export and nonedible use here in the U.S., usually for crushing into meal and oil. These peanuts can also be sold into the domestic market as long as they bring a price that is above the quota support level. The nonquota peanuts would qualify for a lower level of price supports set by the Secretary to clear markets in an orderly way.

Presently, only owners of allotments can grow additional nonquota peanuts.

The new program—letting anyone grow peanuts—will permit those who are the most efficient to gradually grow more of the peanuts.

WOULDN'T FARM PRICES FOR PEANUTS DROP QUICKLY?

No. Prices would, however, reflect supply and demand conditions. With allotments being eliminated, the cost of growing peanuts would come down. Thus peanuts would gradually become more competitive, allowing markets to expand both here in the United States and for export. As nonquota peanuts account for a larger share of the domestic edible market, the market price for peanuts will eventually rise above the price support rate for quota peanuts.

COULD PROSPECTIVE GROWERS BUY OR LEASE THE NEW QUOTAS?

They could buy or lease quotas from anyone else in the same state. That would make it easier for those who would be growing the peanuts to purchase the quotas. The quotas—which would diminish by 10 percent a year—would have value for a while because they entitle the owner to the higher quota-level price supports.

The sales of quotas would move peanut production from marginal areas to the more efficient farms in a state.

HOW WOULD THIS AFFECT THOSE WHO RAISE 30 PERCENT OF THE NATIONAL CROP ON THEIR OWN ALLOTMENTS?

They'd still have the price protection of the support price on quota peanuts. And they could raise all the nonquota peanuts they wanted to.

AND HOW ABOUT OWNERS WHO LEASE THEIR ALLOTMENTS TO THOSE WHO GROW 70 PERCENT OF THE PEANUT CROP?

The owners could still lease or sell their quotas—which they'd now own instead of allotments. They could sell or lease their quotas anywhere in the state, instead of just in their own county as now with allotments.

Those quota owners would see their poundage quotas decrease by 10 percent a year. That is a gradual adjustment which wouldn't be a severe hardship.

WHAT WOULD HAPPEN TO GOVERNMENT COSTS?

They'd come down. The present peanut program has cost the Government an average of $60 million a year over the last 5 years. Even in fiscal year 1981, with a short peanut crop and high prices, the peanut program cost $51 million, mainly because the Government had to take over the low-quality peanuts that couldn't be sold for the support price.

By contrast, the new program would cost about $2 million a year.

AND EXPORTS WOULD INCREASE?

Yes, in time, by peanuts becoming more competitive on export markets. Exports might take half the U.S. crop by 1985—twice the usual percentage—and more later. In 1980 we exported about $250 million of peanuts and peanut products.

WOULD THIS NEW PROGRAM GET THE GOVERNMENT OUT OF THE PEANUT BUSINESS?

For a few years we will have a two price support system. Eventually, however, as nonquota peanuts account for an increasing share of the domestic market, the Government will be able to establish a support price level similar to that for other commodities.

B·A·T,
CIGARETTEN-FABRIKEN GMBH,
Hauptverwaltung, January 27, 1982.

Hon. JOHN BLOCK,
Secretary of Agriculture, USDA,
Washington, D.C.

DEAR MR. BLOCK: We have been importers of US flue-cured and Burley for many years.

Although, over the years, the percentage of US tobaccos in our blends has gone down, we still import a fairly large quantity of tobacco from the U.S.A.

However, we now seem to have come to the crossroads. Ever-deteriorating quality, combined with fast increasing prices, will force us to reduce our intake of US tobacco in favour of tobacco from other countries where quality has been steadily improved and price increases kept at a reasonable level.

For years we have brought this negative development to the attention of representatives of the US Tobacco Industry and to experts from your Department. We have repeatedly stated our opinion that the main reason for the negative trend is the consequence of the way the support system is working in practice; the incentive to produce quality tobacco has disappeared.

As a result, the U.S. have, to a large extent, lost their position as a supplier of top quality tobacco in large volume. The mere existence of the high potential of the US agriculture alone cannot replace the lost advantage.

In our opinion, the objectives ought to be as follows:

To produce quality tobacco on a competitive basis; to ensure stability and continuity of supply; and to protect the farmer at a realistic level.

We feel that all this can be achieved if at least the following adjustments were made to the tobacco programme:

In future, base the support price on the actual cost of tobacco produced.

Place the allotments in the hands of those farmers who are willing to grow tobacco. This implies that leasing should be phased out.

The position US tobacco once held on the world market can be restored only if the support programme does not hinder the production of quality tobacco.

Linking the support price to the cost of production should give the farmer an incentive to improve his income by producing a better quality tobacco. The cost to the taxpayer would be drastically reduced and possibly eliminated. Export chances will grow, which will no doubt positively influence your balance of payments.

Yours sincerely,

E. PFENNIG,
TH. SUL.

H. F. & PH. F. REEMTSMA,
Hamburg, January 12, 1982.

Hon. JOHN BLOCK,
Secretary of Agriculture, U.S. Department of Agriculture,
Washington, D.C.

DEAR SECRETARY BLOCK: Having corresponded with your department on numerous occasions concerning matters of mutual interest regarding many aspects of the USA tobacco program with particular emphasis on the exportation of US tobacco to our country in general and to our company in particular, we feel that you are aware of our position in the German cigarette market. We have consistently been one of the largest buyers of US-tobaccos and through our suppliers have exerted every effort to promote the improvement of the quality of your tobaccos to ensure a steady supply of flavorful tobaccos for our blends.

We have recently reviewed a table entitled "Price Support Levels for Flue-cured and Burley Tobaccos, 1982–87 (Projected)". These projections were prepared by Dr. Robert H. Miller, Agricultural Economist, National Economics Division, Economic and Statistics Service of the United States Department of Agriculture.

With conditions as we foresee them in the future, it will be quite impossible for us to follow these upward price trends, especially with the present flue-cured policy of increasing the flavorful grades which we are buying more than the lower stalk tobaccos when computing average support levels.

Since US-tobaccos play a most important part in our blends, we would be extremely reluctant to be forced to substitute them with other growths. We would therefore ask you and the Reagan Administration to do everything in your power to take steps to make US tobacco more competitive. The program needs to be changed to make it more world market-oriented, which we understand is consistent with your farm policy objectives.

Please be assured that our opinion as stated above is extended in a helpful manner to ensure a continuation of US tobacco exports.

We will appreciate your interest and cooperation in helping resolve this difficult problem.

With our best wishes, we are

Sincerely yours,

GERHARD W. SCHÖNBACH,
Director, Leaf Purchases.

TURMAC TOBACCO COMPANY B.V.,
January 13, 1982.

Re: Price support levels for tobacco 1982–87.

Hon. JOHN BLOCK,
Secretary of Agriculture, U.S. Department of Agriculture,
Washington, D.C.

DEAR SIR: Recently we received a projection of Price Support Levels for Flue-Cured and Burley Tobaccos 1982–87.

This document was signed by: Robert H. Miller, Agriculture Economist, Corps Branch, National Economics Division, Room 212 GHI Building.

For Fluecured the average support price from 1982 through 1987 amounts to: $1.76—$1.94—$2.12—$2.28—$2.45—$2.62.

Against this strong upward pricetrend stands a downward quality trend. Through the years most intensive handwork like reaping the leaves, suckering grading etc. has been replaced by the brutish job of mechanical tools and spraying chemicals. One would expect lower productioncost by these efficiency measures which seemed unavoidable.

Grading has almost disappeared: every farmer bale consists of many qualities completely excluding selective buying; but farmers kept on complaining of soaring productioncost and supportprices increased obediently.

The reason why we write you:

(1) U.S. Flue-Cured is getting too expensive in view of the decreasing quality.

(2) We ask you to try to curb this trend of over increasing prices.

(3) However U.S. Tobacco is an important component in our blends, we manage to cut our yearly purchases.

(4) We have discussed this subject repeatedly with our suppliers but eventually, after purchasing many decades, it seems appropriate to explain our views to the highest level.

Sincerely yours,

J. RUIGROK,
Leaf Manager.

STATEMENT OF JOHN S. CAMPBELL, CONSULTANT, JOHN S. CAMPBELL LIMITED

Mr. Chairman, I am John Campbell, Tobacco Consultant, formerly Vice President of the American Leaf Organization, a subsidiary of Imperial Tobacco Limited (I.T.L.). I have also been Chairman of the Quality Committee of the Tobacco Association of United States for the past fourteen years.

For the first seventy years of this century, the United Kingdom (U.K.) was the number one buyer of U.S. flue-cured tobacco leaf. During this same period, I.T.L. purchased more American Leaf than any other export buyer in the world. But for the past ten years or so, the U.K. has been using far less American tobacco (See Appendix A).

From 1973 to 1977, exports of U.S. flue-cured leaf to the U.K. declined 46 percent. In 1977, I.T.L. purchased approximately 30 million pounds less than its average yearly purchase in the five-year period, 1966–1970, a drop of more than 80 percent (See Appendix B). Since 1977, I.T.L. purchases have remained at this greatly reduced level.

As I.T.L. spokesmen explained publicly in 1977, a primary reason for this dramatic decline is that I.T.L. no longer profits by paying the high price for American leaf. The amount of good-quality U.S. tobacco carefully handled and graded, which I.T.L. requires, diminishes each year. And the demand for the limited amount of such quality leaf has forced prices up to unrealistic levels. For example, from 1973 to 1981, the U.S. support price on flue-cured Grade B4F (which might be regarded as the "hub" grade of the U.K. market) increased 119 percent, from 83 to 182 cents per pound. As prices rose and supply of the necessary quality diminished. I.T.L. was not able to be as selective in its leaf-grade standards to obtain its required amounts of tobacco.

I.T.L. foresaw problems with U.S. supply long before such patterns developed. Consequently, in the early 1960s, I.T.L. began reducing staff and closing processing plants in the United States in order to get overheads in line with the decreasing amounts of its American purchases. And in the 1970s, the pace of such reductions accelerated. In 1980. when the level of purchases no longer warranted a large capital investment, I.T.L. sold its last remaining leaf-processing plant, located in Wilson, North Carolina. After nearly eighty years in the United States, during which I.T.L. had owned and operated as many as twenty leaf-processing plants at one time, the company now purchases its American leaf through a single U.S. dealer, who processes the tobacco for I.T.L. and exports it to the United Kingdom.

International purchasers, who have the ability to buy leaf throughout the world, today look primarily for two factors, quality and value for money.

Though flue-cured tobaccos appear fairly similar regardless of country of origin, their intrinsic qualities are not the same because of different growing methods. and the climatic and soil conditions under which they are cultivated. The U.S. leaf has traditionally been considered supreme by cigarette manufacturers because of its balanced chemical content, flavor, aroma, and excellent processing and manufacturing characteristics. In the past, most other countries have produced lower quality grades that generally have been used as filler.

But the 1970s changed all this. Foreign cigarette manufacturers have found alternative sources of flue-cured tobacco in Brazil, South Korea, Thailand, Zimbabwe, Canada, and other countries. Production costs there are lower and leaf quality has steadily improved to match that of the U.S. Many of these new sources now have superior systems for leaf grading and sale, including the removal of foreign matter, suckers, stalk, and sand which are unwanted, because sales are based on weight. Also, other countries have acquired the necessary technology for high-standard processing and packaging of tobacco for export.

Tobacco prices of U.S. leaf also rose during this same period to such a high level that U.K. manufacturers were forced by economic factors to use as little U.S. tobacco as possible in their products. From 1973 to 1981, the average support price of U.S. flue-cured tobacco increased 107 percent, from 76.6 cents per pound to $1.59 per pound. At the same time, as noted earlier, support on the hub Grade B4F increased 119 percent. Because of the U.S. support-price formula, the prices on the top grades tend to increase faster than those on the medium and lower grades. In 1980, B4F was supported at $1.61 per pound, an increase of 11 percent over 1979, compared with the overall average increase of 9.4 percent in support prices. The same occurred for 1981 over 1980. The higher prices on the top grades are necessary to protect the grower, but ultimately the same growers suffer in the international market. In 1980, the United Kingdom could purchase green leaf equivalent to a B4F grade from Brazil at 68 cents per pound, almost two and one-half times cheaper than the U.S. price. Based on current projections of support prices, therefore, the future of U.S. flue-cured exports is not promising.

International tobacco price analysis is a complex subject that has received insufficient attention from government and private-sector researchers. Yet increasingly, international buyers are equating the value of each particular country and grade per unit of quality with new formulas for brands of cigarettes that are both popular and profitable. The key to the future is the relationship of price to the quality of the tobacco—for all grades—in other words, a price-quality ratio *or* value for money. The country of origin is no longer the primary concern.

In many ways, the United States is a perfect country for growing tobacco. The climate is ideal (from Maryland to Florida) and there is plenty of land and good soils to increase poundage. Unlike many developing countries, the United States does not yet face competition between food and tobacco producers over prime farmland. The growers are extremely knowledgeable and are backed up with outstanding agricultural extension services and an abundance of research and technical know-how. Advanced mechanization—the means of producing "labor-cheap" crops—is readily available. Finally, leaf supplies have a certain level of dependability year to year and the government is stable.

Despite these many assets, since 1970 the United States has exported vastly reduced amounts of flue-cured tobacco to the United Kingdom, traditionally, a leading buyer of American leaf. Imperial Tobacco Limited's decision in the Spring of 1980 to close its final American processing facility dramatized this trend. I.T.L. has chosen to stake more of its future on the tobacco of other countries rather than on U.S. leaf. The closing of this I.T.L. facility, in many ways, should be a signal of alarm to the whole U.S. tobacco industry.

To put this another way, if I.T.L. purchases alone were the same today as in 1970, the current flue-cured tobacco quota could be 10 percent higher.

Unless the current tobacco support program is completely overhauled, the U.S. market could suffer even greater losses. The federal program must be changed so as to enable those farmers who wish to continue growing tobacco to increase production and at the same time maintain competitive prices in the world market. The solution lies in the hands of the people producing and marketing the crop and the policy makers and farm advocates involved in setting policy. It is in the foremost interest of these people to safeguard their export markets. Their will to produce, to change, and to achieve according to the dictates of the marketplace is vital.

[APPENDIX A]

FACTORS AFFECTING U.K. REQUIREMENTS OF U.S. TOBACCO

There has been a steep decline in the use of U.S. Flue Cured tobacco in the U.K. in recent years. Taking the five year period 1973–1977 U.S. usage has declined from 115 million lb. to 76 million lb. dry weight—a reduction of 34 percent. During the same period imports of U.S. Flue Cured tobacco have declined by 46 percent. There are always some distortions in import figures due to shipping delays, etc., but these figures would suggest the possibility of a further reduction in U.S. usage during 1978.

Historically, the U.K. has been a large user of U.S. Flue Cured tobacco, and indeed for many years was the U.S.A.'s largest export customer. There are a number of factors which have contributed to the decline in the usage of U.S. tobacco in the U.K., but the main reason is the cost of U.S. tobacco relative to other sources of supply.

It is widely recognized that the intrinsic quality of U.S. Flue Cured tobacco is generally superior to any other source in terms of a combination of manufacturing quality, aroma and nicotine content. It is thus only reluctantly that the U.K. has reduced its usage of U.S. tobacco. Regrettably, the cost of U.S. Flue Cured tobacco has reached such a high level that U.K. manufacturers are now forced by economic factors to consider how little they can use commensurate with the smoking quality of their products.

There is little doubt that since the Rhodesian U.D.I. in 1965, a number of alternative sources of Flue Cured tobacco have been developed very successfully and have contributed to the decline in U.S. usage. Most of these new sources of supply are in developing countries whose costs are generally low. In the event of a political settlement in Rhodesia, an additional source of good quality tobacco would be available to the U.K. and pose a further threat to U.S. tobacco exports.

During the five year period 1973–1977 the average support price of U.S. Flue Cured tobacco has increased from 76.6 cents/lb. to 113.8 cents/lb.—some 48 percent; the support on Grade B4F (which might be regarded as the hub of the U.K. market) has increased from 83 to 126 cents/lb.—some 50 percent. In 1978 the average support price for the crop is 121 cents/lb. and by the U.S.D.A.'s own projections would be 144 cents/lb. in 1981. Thus, in the four year period 1978–1981, a further increase in average support of some 27 percent is in prospect. The future prospects of U.S. Flue Cured exports do not look promising on this prognosis.

The increase in support levels is by no means the whole story since support levels simply set a price level below which any specific grade cannot be purchased. Our belief is that support levels are set at an unrealistically high level relative to the cost of growing tobacco, although it is recognized that the latter is extremely difficult to measure. This situation is exacerbated by the control of the size of the crop to a level which will scarcely meet the predictable demand for domestic and export markets. In a situation of artificially created shortage, auction prices escalate, with the starting price influenced by the unrealistically high support level. This is the fundamental cause for U.S. Flue Cured tobacco progressively pricing itself out of export markets.

It has already been pointed out that a number of Flue Cured producing countries have improved the quality of their tobacco significantly over the past five years and are now technically equipped to pack tobacco to the same high standards available in the U.S. They also grade and present their tobacco for sale in a much superior fashion to U.S. producers, where, despite high prices, tobacco is presented for sale poorly graded and including suckers, weeds, plant stalk, dirt, and foreign matter.

It is recognised that continuity of supply is of vital importance and this, of course, means that the U.S. farmer must make a reasonable profit out of growing tobacco. Our suggestions, therefore, are that support levels should be reduced and the crop size increased commensurate with this objective. Some reduction in U.S. export prices would almost certainly stimulate export sales. As an example, Canada suffered a steep decline in tobacco exports to the U.K. until they recently introduced an export subsidy (financed by the Canadian Cigarette Manufacturing Companies) which brought their export prices to a competitive level compared with other sources of supply. The re-introduction of export subsidy in the U.S. is probably politically impossible, but the Canadian example does illustrate what a dramatic turn round in export sales is possible with lower prices.

There are two recent changes in the method of tobacco taxation in the U.K. which have caused U.K. manufacturers to look even more critically at costs, including the cost of raw materials.

Since January 1978, the system of tobacco taxation in the U.K. has changed from a duty levied on the weight of imported tobacco (irrespective of value) to a duty on the finished product, as in the rest of the E.E.C. The new tax is partly Specific and partly Ad valorem and E.E.C. countries have to harmonise their cigarette taxation so that eventually they all have the same proportion of the two elements. At present several countries and notably France and Italy (the major tobacco producers in the E.E.C.) favour a high proportion of Ad Valorem tax which has the effect of magnifying differences in ex factory costs and thereby protects low cost domestic products. Other E.E.C. countries including the U.K. and Germany which produce high quality products, favour a low proportion of Ad valorem tax and a high proportion of Specific.

It should be noted that at the present level of Ad valorem tax in the U.K., ex factory cost differentials are multiplied twofold at the retail level. The critical importance of leaf tobacco (and other) costs can thus be appreciated. The U.K. will be negotiating for harmonisation of cigarette tax with the lowest possible element of Ad valorem tax (probably 45 percent) and the T.A.C. would welcome any influence the U.S.A. could bring to bear on these negotiations. Higher levels of Ad valorem tax would increase the multiplying effect on cost differentials and would make it increasingly difficult for the U.K. to purchase high costing U.S. tobacco.

The second most important factor in the consideration of relative values for imported raw materials is the rate of the external tariff applicable in the E.E.C. A separate note is attached summarising the structure of the tariff. The U.K. industry believes strongly that the tariff is operating to the disadvantage of American producers who, along with the Canadians, are bearing the brunt of the high level of the tariff. The T.A.C. would welcome any further pressure which the American Government could bring to bear during the current negotiations within G.A.T.T. (to which the E.E.C., U.S.A., and Japan are the principal parties), that may result in a reduction in the C.C.T. on raw tobacco.

The burden of the C.C.T. will become considerably greater for the U.K. in 1979 following revaluation of the European unit of account. While revaluation is probably inevitable, it is a factor that should be taken into account during the processes of negotiating a lower external tariff on imports of American tobacco into the U.K.

T.A.C.
28th April 1978

[APPENDIX B]

STATEMENT OF MR. R. A. GARRETT, CHAIRMAN, IMPERIAL TOBACCO LIMITED

Imperial has been a purchaser of American flue-cured tobacco for over 70 years and for much of that time occupied the position of the largest single export buyer However, in recent years our purchases have dropped substantially and this year we will purchase roughly 68,000,000 pounds less than our average yearly purchase during five year period 1961–65; 80,000,000 pounds less than our average yearly purchase in five year period 1966–70; 39,000,000 pounds less than our average yearly purchase in five year period 1971–76; and 13,000,000 pounds less than last year.

We have also reduced our year-round monthly paid staff by approximately 50 percent since January 1, 1971 and closed our processing facility in Greenville in order to get our overheads in line with the size of our present purchases in the U.S.

The Japanese and German tobacco industries now rank as the largest importers of American flue-cured tobacco, but may well be reconsidering the level of their purchases, certainly this appears to be true in the case of Germany where usings of U.S. leaf are reported to be on the decline.

One of the main reasons for this reduction in our offtake is that we consider we are no longer getting the value for money which we expect from our American purchases. The amounts of good quality tobacco reasonably handled and graded which constitute our requirements and those of other export buyers appear to diminish each year, and the demand for the limited amounts available forces prices up to unrealistic levels. At the same time, the ability to be more selective in our purchases is reduced, and grade standards have to be lowered to obtain the required amounts.

We acknowledge that as far as the 1977 crop is concerned poor growing conditions have further reduced the amounts of desirable tobacco available, and we now expect to buy only half of our original requirements. However, the current crop does serve to accentuate the problems we, as buyers, have been facing for several years.

It should be pointed out that high prices and short supply of export types of tobaccos being grown in this country encourages many other countries throughout the world to expand their production and ensures their profitability.

The problems faced by U.S. exporters are not insurmountable but require the combined efforts of everyone concerned in the U.S. tobacco industry to produce the changes required. The solution lies in the hands of the people producing and marketing the crop, and we believe it is in their own interests to safeguard their export markets.

STATEMENT OF JERRY MARSTON, PRESIDENT, AMERICAN AGRICULTURE MOVEMENT OF VIRGINIA, INC., DINWIDDIE, VA.

We, the American Agriculture Movement of Virginia, believe strongly, the tobacco program is critical to tobacco farmers of Virginia, the economy of Virginia, and the economy of the United States.

It is for this reason, we oppose any effort to eliminate or suspend the quota system for flue-cured tobacco.

We strongly recommend the following resolutions to the tobacco program:

(1) That by a per pound assessment, flue-cured tobacco farmers own and operate the Flue-Cured Tobacco Cooperative Stabilization Corporation without any cost to the U.S. tax payer.

(2) That stabilization be allowed to retain all funds held for members until it becomes self supporting.

(3) That allotment owners must own sufficient cropland to plant all their allotment. Any allotment owner not owning sufficient cropland would, within two years, be allowed to sell his allotment within county lines. At the end of this period, any allotment in excess of cropland would go to the county ASCS office for redistribution within that county.

(4) That the sale of tobacco allotment be allowed within county lines as long as the allotment on the receiving farm does not exceed 50 percent of the available cropland with this addition and provided this allotment remains with this farm for five years.

(5) That all non-quota tobacco produced in flue-cured counties be charged against flue-cured quotas.

(6) That the USDA Secretary of Agriculture, with the advice of a producer advisory committee, be given authority to make adjustments in the price loan levels for different grades of tobacco in order to make such kinds and grades more competitive in domestic and foreign markets and to help achieve the objective of a no-net-cost-to-the-tax payer other than such administrative expenses as are incidental to the implementation of the program. However, the reduction in over-all price loan level under the current formula shall not exceed 35 percent of the normal increase for any year as provided for under existing law. It is further recommended that this authority be granted for an initial period of five years.

(7) That spring leasing of any or all quotas be allowed only during the period of January 1 through March 1 of each crop year and that fall leasing be allowed only for any farm planting 80 percent of its effective quota.

(8) We recommend that all individual farm poundage and acreage be adjusted every five years using past farm history to more realistically reflect per acre production potential.

(9) That county ASCS offices be permitted to list tobacco for rent giving pounds, name and address only and be forbidden to list asking price per pound.

(10) That the current designation and redesignation programs be continued except that the last designation period would not have a two week waiting period.

(11) That Stabilization be allowed to sell directly to foreign buyers at current prices.

(12) That any monetary penalties caused by errors at the warehouse or ASCS not be charged the farmer but rather that his quota be reduced the following year.

(13) That tobacco continue to be under separate legislation and not combined with the general farm program.

(14) That any administrative or legislative changes in the tobacco program be made and announced on or before December 10 of the preceeding crop year.

(15) That tobacco be uniformly graded and supported throughout the marketing season.

(16) We strongly oppose lease and transfer across county lines.

We urge the committee, Congressmen, Senators, and the administration to consider the American tobacco farmer in these proposed changes in the tobacco quota system.

STATEMENT OF HAROLD G. ALLEN, LILLINGTON, N.C.

Gentlemen: I would like to present to you a general feeling toward the tobacco program, its problems, and possible solutions. Before doing so, I would like to clarify my position. I am a tobacco farmer. It is not my belief that tobacco farmers wish to do away with the allotment system. Therefore, I would reiterate that I am not attacking non-producing allotment holders. As producers, we realize that a few years down the road, we too will be in a similar or like situation as many non-producing allotment holders are today. We share the concern that many of you have for the widowed, retired, and disabled. We recognize that they are entitled to something at the end of their life's work. It is within this thought that we seek to improve our tobacco program to the point that never again will it be threatened in the Halls of Congress.

For these reasons, I believe it to be essential that we address all the problems of the tobacco program. I am very much aware that you, as our representatives, would like to get the outside politicians off your backs, once and forever. I believe you will accomplish this. However, it disturbs me to think that you might overlook our (producers) problems in achieving this goal. I feel that it would be a tragedy for you to answer those beckoning calls of outsiders and not hear the cries of those whom you represent.

There has been much talk and concern about the problems of the tobacco program. Farm organizations have made proposals that they feel will solve some of the problems. Some are very good; others do not accurately reflect the producer's point of view.

I recognize that the problems are complex . . . the solutions are difficult. I agree with you that extreme care should be taken lest we create a monster that we cannot kill. At the same time, I do not wish to see our tobacco program evolve into a monster that will destroy its benefits.

In light of this, I think it appropriate that all the tobacco community share in the input and, likewise, share in the responsibility. First and foremost, it should be the concern of all segments of the tobacco community to seek changes that would be beneficial to all of us. To accomplish this we must seek long range goals, rather than short term gains. Allotment holders are very pleased to receive the lease prices that they now enjoy; however, I believe that they had rather have lower lease prices with assurance of a continuing program than to have high lease prices for the next three years or so.

The current high cost of quota lease is not only forcing many tobacco producers out of business, it stifles many other businesses. Equipment and tractor dealers can attest to this. These high lease prices also arouse concern among financial institutions.

I say to you today that there is a problem. We must make changes that will be beneficial to allotment holders, tobacco producers, tobacco companies, and all those who are affected by the tobacco program. We cannot continue to allow our export markets to dwindle away which causes a reduction in quota resulting in higher lease prices. This spiral must be stopped.

As I said before, I am a tobacco producer; therefore, I feel it necessary for me to relate to you some of the concerns of tobacco farmers. In order for me to do so I wish to clarify some "terms" that are often used.

1. *Tobacco farmer.*—A tobacco farmer is one who shares in the "risks" of tobacco production. The allotment holder who receives a check in January would not qualify. We have heard the term "absentee" tobacco farmer. We believe that such people cannot accurately portray our point of view because only "farmers can speak for farmers". Hence, we have trouble with that.

2. *Fine Tuning.*—We have heard some people speak of fine tuning the tobacco program. They say that it is like a car, truck, or tractor that is sputtering and cutting out. They say the tobacco program, like that equipment, needs a tune-up. I am not a mechanic, but I do know that when blue smoke comes from the exhaust, a simple tune-up is not the answer. I submit to you today, that we did, in fact, see a lot of blue smoke coming from Congress in the Fall of 1981. I further submit to you that there is a lot of blue smoke coming from those tobacco farmers who are sitting in this audience today.

3. *Radical.*—There are those who would say, "let's not do anything radical!" Gentlemen, when we went from "bundled" tobacco to "loose leaf" tobacco at the market place, that was a radical change. When we went from conventional curing to bulk curing, that was a radical change. So radical is, perhaps, not as bad as we might proclaim.

I share with you the fear that many have pertaining to change, both in acceptance and application. However, it is not my belief that cosmetic changes or fine tuning will accomplish the goals that we hope to achieve.

* * * * * * *

For the next few minutes I would like to present a synopsis of an article that I recently wrote. This is my opinion of what has happened to the Federal Tobacco Program since it was created.

1. First of all, the tobacco program has not kept pace with the other facets of the industry. The reason for this is due to its overall effectiveness, and of course, the political sensitivity.

2. Secondly, since the program has not been updated, many things have happened that do not adhere to its original intent.

3. For these reasons the program has come under attack on three fronts. They are (1) the feudalistic allotment system; (2) uncompetitive price supports; and (3) its cost to the taxpayer. Let us consider these individually.

(a) *Allotments.*—Were intended to control production. They afforded the producer protection from over supply. Today, allotments do much more, specifically, they tend to control lease prices. It has been said that 84 percent of the producers lease all or a part of the tobacco quota.

(1) Unfortunately, allotments have attracted many "opportunists" and speculators. This is particularly distressing to producers. I might add that this is one area where the tobacco producers cry out for your help. It is our belief that attorneys, suppliers, and warehousemen should be prohibited from such practices.

(2) I further believe that it is time to seek ways to orderly transfer tobacco quotas back into the hands of producers.

(b) *Price Supports.*—Were conceived as a means of guaranteeing the producer a fair return on his tobacco. Therefore, price supports went hand-in-glove with allotments.

(1) Needless to say, price supports have become a tool in the hands of allotment holders. Each year the producer passes along to the allotment holder much of the expected increase in price supports.

(2) For this reason, tobacco producers have expanded their operations quite rapidly to offset rising production costs and high lease costs.

(3) This has caused more demand for quota at a time when export sales are decreasing. Hence, the cycle becomes more vicious.

(4) In view of this situation, it seems a bit unfair for tobacco farmers to expect the tobacco companies to reimburse them for higher lease costs. This is particularly true when these companies are experiencing lower export sales.

(5) It would seem to me that the Agricultural Conservation and Stabilization Service Offices could be utilized to assist in stabilizing lease prices since they are utilized in controlling the supply of quota.

(c) *Taxpayer Costs.*—As you well know, is a popular battleground for tobacco foes.

(1) Tobacco producers fully realize that you must properly address this issue and make the necessary changes.

(2) There are others who can best describe these costs and recommend solutions; however, tobacco producers would urge you to consider all segments of the tobacco community that benefit from the tobacco program. These include not only producers, but allotment holders and tobacco warehousemen as well.

4. In view of the aforementioned target areas, I feel that you, as our representatives, should consider changes to eliminate problems in all these areas. I realize that taxpayer costs are probably your biggest consideration, but "stopgap" measures will not have long range benefits.

5. *Suggested Changes.*—My concept of change is not so much in what we are doing as it is how we are doing it. In other words, I believe we can continue to maintain the integrity of the program but simply change how we administer it. Therefore, I submit suggestive changes that I feel would accomplish this end.

(a) Certify all allotment holders as producers or non-producers.

(b) Require all non-producers to surrender their quota (each year) to ASCS for leasing. They would be reimbursed by July 1 for an amount equal to 25 percent of the previous year's average market price.

(c) Permit producers to lease only an amount equal to the amount that they leased the previous year. Adjustments would have to be made for cuts in quota, undermarketing, overmarketing, etc. Expansion of farm operations would be accomplished through the next suggestion.

(d) Establish a pool of quota which results from retiring producers and others who had become non-producers. Offer this pool of quota to producers by way of sealed bids. Reimburse these allotment holders at the same rate as other non-producers. Any gains from the bidding would be channeled to the Department of Agriculture for administrative costs.

(e) Permit non-producers to sell their quota to only producers except in cases where their farms were for sale.

(f) Modify the current use of the power of attorney structure which enables various parties to easily speculate and be self-serving.

(g) Establish a new quota/acre base by taking the past five year county history and making it uniform for all producing farms. This would prevent low quota/acre farms from producing many pounds of excess tobacco which plays havoc with Fall leasing.

(h) For participants of the Four Leaf Program, reduce the current ten percent overplanting limitation to five percent which more accurately reflects the poundage that the four leaves represents.

(i) Modify the price support formula, but not in mid-year, to reduce the rate of increase in price supports. Hopefully, this would make our tobacco more competitive and possibly increase the amount of quota in future years.

(j) Establish a "Self Supporting Program" by assessing each allotment holder a fixed amount per pound of quota. Assess each producer a rate that satisfies the Flu-Cured Tobacco Stabilization requirements. Assess tobacco warehousemen a specific rate for each pound of tobacco that he sells. Perhaps, the same as the charge for grading services.

Statement of Norris Harrell, Chairman, Edgecombe County Farm Bureau, MacClesfield, N.C.

I would like to address you first as the Chairman of the Edgecombe County Farm Bureau Young Farmer and Rancher Committee.

The committee agreed on the following Administrative action:

1. Allow producer associations, through which price support is made available to producers, to increase the overhead deduction fee charged the producer.

2. Implementation of procedures whereby all or a portion of the net gains realized from the sale of one crop would be available to offset losses on other crops.

The committee also agreed on legislative action that would authorize the Secretary of Agriculture to adjust price support levels for the various kinds of tobacco to compensate for changing economic and marketing conditions.

In general, the committee agreed that the allotment and price support system was necessary for production and price control, but that the allotment would eventually have to be in the hands of the producer.

As an individual farmer, I would like to say we as tobacco growers are already being assessed .07/cwt for tobacco associates, .45/cwt for tobacco graders and now we are facing a proposal to assess the grower again in order to save the program. The farmer is already caught in the squeeze of rising production costs on the one hand and the threat of reduced support prices on the other.

My question on this point is who are we fighting to save the program for: the grower, who takes all the risks, or for the farms that happened to have been assigned quota during 1933?

We are in an ever changing agricultural scene. The Agricultural Stabilization and Conservation Service did a survey in 1979 that showed 60 percent of the flue cured tobacco farms in the State of North Carolina leased out quota while only 24 percent leased in. Verner Grise of the USDA, reporting on the 1979 survey indicated that a higher percentage of farmers are dependent on leased quota in order to have an economical farm unit. To address the Farm Bureau's resolution of planting quota on the original farm one year in three seems to be a step away from economics. Lease and transfers within counties is one of the changes in the program which has contributed to economic efficiency by allowing efficient field size and reduced travel. Even with lease and transfer the cost of production including the high interest rates and the need to operate the program at no cost to the government, which includes fees for the graders and the proposed grower assessment, dictate a need for even more economical production. But when you are already using the best production and management practices available the only alternative to cut costs is to cut corners and that begins to cut production which in turn cuts into profits. As I see it the biggest remaining factor to be dealt with is lease rates for quota. As leasing costs increase to one-third or more of the value of tobacco production, profit margins of tobacco growers (and in particular small-scale producers who might have higher production costs) are narrowing. This could lead to a greater decline in the number of tobacco growers and an increase in average of tobacco farming units.

Rather than state that the tobacco quota should be in the hands of the grower I ask you why wouldn't the government, the small grower and the market benefit more by placing the quota in the hands of the grower. I realize that many retired farmers would lose that income but another program began during the 30's, social security, was started for retirement. Naturally, these land owners would continue receiving land rent but hopefully not at the extravagant prices of $1000 to $1300 per tobacco acre now paid just for the federal license to grow tobacco.

You may ask about the people who just purchased farms based on allotment. They have been faced with the fact that allotments could possibly be voted out every three years since the program was started. If you believe they should be guaranteed a return on their investment for allotments, not the land, then what guarantee do you believe should be given to buyers if, as the Farm Bureau suggests, allotments are allowed to be sold? I ask you, at this point in time, would you consider the purchase of quota a sound and wise investment in view of the health controversy, declining domestic market and the free market oriented Congress? I believe the Eagleton amendment which failed by one vote in Congress is a good indication of the way Congress feels.

To answer my question on the ownership of tobacco quota, I believe and feel that the quota should be in the growers hands rather than those who own the farms. Besides it is the active farmer that provides jobs for thousands of people from planting to harvest and contribute to the balance of trade. It is the farmer that must borrow operating money at a high interest rate to pay production costs, including high lease rates, and it is the farmer who risks all against the elements of nature. And now apparently we are expected to provide funds for a program that has come to a point in time, 40 years since its inception, that no longer benefits the man it was originally intended to help. I believe in the quota system but I believe it should belong to the man who grows tobacco. When the quota is in the grower's hands then he can afford the grower assessment and reduced price supports to keep the program working.

I have two suggestions on how to get the quota back to the actual grower. My first suggestion is as follows:

(1) Beginning in 1983, separate the quota from the land and set aside a certain percentage, to be established by the Secretary of Agriculture, for people wishing to get into tobacco production. The remaining quota would be reassigned, within the county, to those most recently producing tobacco based on his past history of production. Any time a grower retires or terminates the production of tobacco that quota would be redistributed, within a county, to current growers with a portion set aside for newcomers wishing to grow tobacco.

(2) Compensate the loss of quota to the former owners by government compensation or by tax write off.

I say this because the government started the tobacco program to help the farmer by controlling supply and price support. The program was not intended to generate leasing income for nonproducers.

My second suggestion would begin with the 1983 crop year and is as follows:

(1) Persons that do not actively participate in the production of the quota, whether on the farm or off, through monetary or management participation and do not derive one half (or one fourth, whatever is deemed reasonable by Congress) or more of their income from such participation would lose that quota to be redistributed by a government pool, within the county, to current producers and new farmers wishing to get into tobacco production. The Secretary shall have the power to set the percentage of redistribution to carry out this provision. In the event that both qualifications are not met, the quota would return to the government pool.

(2) Starting with the 1983 crop, allotment would no longer be attached to the land nor would the allotment be passed on by inheritance. In effect, the present allotment holders would continue to own allotment for an unspecified time. At the time of his death, the quota would pass into the government pool.

(3) In the future, when those growers that had been distributed quota retired or quit farming that quota would then return to the government pool to be redistributed to current growers and newcomers.

As I said, these are only suggestions because I don't know the solution. But I feel as a grower that we are being asked to pay for fine tuning when, in fact, I believe we need an overhaul.

JANUARY 18, 1982.

DEAR SENATOR HELMS: I am writing to you in reference to the upcoming tobacco hearings. Several of my friends and I are advocating that the tobacco program become self-sustaining. This can be done as suggested by the Farm Bureau and the N.C. Tobacco Growers Assn., by allowing:

1. Flue-Cured Stabilization Corporation to retain any net gains realized on loan stocks.
2. An assessment per pound of tobacco from growers as is being done to pay for grading services.
3. Should Congress increase the Federal excise tax on cigarettes a portion of the proceeds could be set aside for research and a portion to cover losses on loans to growers.

Another matter of just concern to us, as young growers, is the cost of bearing quota. We feel the cost for allotment, the privilege of growing tobacco, is becoming prohibitive. We feel that by returning the allotment to the growers it would mean reduced production costs. This would mean loan rates from the FCSC could be reduced and thereby help save the program for the grower. It would also keep American tobacco more competitive on the world market and in the long run it would help the balance of trade.

One possible suggestion for returning the quota to the grower would be to turn the quota over to the county A.S.C.S. and lease to the growers at a cost only to cover administration. The amount of quota each grower would receive would be based on his past farming history.

For land owners that just purchase land based on allotment a certain amount of time could be allowed to recoup their investment only on the cost of allotment and not the land itself. Land with quota that was inherited or has been purchased long enough to cover the cost of quota should lose that quota to the county. Naturally the land would continue being leased but not at the extravagant prices of $1200 to $1300 per acre now being paid.

Mr. Helms, the program belongs to the actual grower, the man who takes all the risks and puts out all the sweat, and now is the time to put it in its place. But you know as I do, allotment holders outnumber the growers so that growers will be out voted on an issue such as the above suggestion.

So it's up to people like you, Senator, to put the quota and the program where it belongs.

Sincerely,

NORRIS HARRELL.

P.S. Please let me hear your thoughts on the above suggestions.

STATEMENT OF EUGENE JAKAWAY HOPPER, JR., MADISON, N.C.

I, Eugene Jakaway Hopper, Junior, have been farming since 1976. During this time I have seen the tobacco program attacked by the H. E. W. and many medical organizations and manipulated by many political forces and lobbying groups. The program has also been misused by the non-producers who own the quotas.

In 1976 my farm had seven (7) acres of open land with 3500 pounds of quota. During the past six years I have received a 19 percent reduction in my base quota. At the present I have twenty-four (24) acres of open land, one lake and have completed 90 percent of the U.S. Soil and Water Conservation Service plan. As of February, 1982 I have 2028 pounds of quota.

My total tobacco operation in 1981 was 33.45 acres of type 11 tobacco. This tobacco was grown on three separate farms. One farm is on a share basis of ¼, another farm is leased on a county average, and I lease and transfer allotment to my farm.

In 1981 I sold all quota that was alloted to me. With an overproduction of 19,000 pounds at the closing of the tobacco market I tried to lease more quota to sell my tobacco. I was unable to purchase the quota that was selling from 75¢ per pound and more. These same pounds were selling for 30¢ and 35¢ during the Spring leasing season. As of now, pounds in Rockingham County are selling for 50¢ and more. Gentlemen, as a young farmer, I can not pay for this high price for tobacco pounds and stay in business.

Changes must be made in the total tobacco program for me and other farmers to continue in the farming operation. I feel there are some basic changes that should be made:

ALLOTMENTS

1. Allotment owners must own sufficient cropland. Any allotment owners not owning sufficient cropland would forfeit this allotment to the county ASCS office for redistribution within that county.
2. Require the allotment to be grown on the farm every second year.
3. Measure all allotments.
4. Maintain Fall leasing.

Price Supports. . .

Congress has mandated that the price support system be made self sufficient. I believe this is a reasonable request. I would recommend that the price support system be similar to the grading.

1. Adopt a means of moderating price change so that the support price will fit the current situation.

Freeze or even reduce poor selling grades.

2. Let Flue-Cured Tobacco Cooperative Stabilization Corporation sell direct to the foreign trader.

3. Authorize FCTCSC to withhold a percentage of loans to finance the cash if necessary. Example: If tobacco sold for $1.50 farmers paid $1.48 and FCTCSC retains 2¢ until FCTCSC has become self-supporting.

4. Let FCTCSC retain all profits.

"Nesting". . .

The FCTCSC has reported a substantial increase in this practice. This is just one way that a farmer can recover his costs. I am in no way in favor of "nesting", however, most farmers need to sell all their pounds to break even. The cause of this is high leasing costs, the present high interest rates, labor, cost of land, and certainly the costs of fertilizer, chemicals, equipment, utilities, and many other expenses.

Fall leasing. . .

I would remind the Committee of the 1970's when Fall leasing was not permitted. This prohibition produced a black market of the sale cards. We need to maintain the Fall leasing to help the farmer retain the means to recover some of his loss.

STATEMENT OF GEORGE B. WATSON, SR., WATSON SEED FARMS, INC., ROCKY MOUNT, N.C.

Mr. Chairman, and other friends of Tobacco, my name is George B. Watson. I am a Tobacco Farmer and Seed Producer. I presently serve as Chairman of the Board and Director of Research for our family farming operation, Watson Seed Farms, Inc., located in the Gold Rock community of Nash County. Our three sons participate in our family business. They are the 5th generation of our family to be on these farms.

This year, 1982, is the 55th Tobacco Crop in which I have been involved. This period has taken us from the mule drawn sled to the self propelled automatic tobacco harvester. However, there are many things pertaining to tobacco that have not changed, nor should they. I feel sure that the reason we are here today is because we do not fully understand what has changed and what has not changed. Up until mechanical changes began to appear in tobacco production and curing, successful tobacco farming was an art; today it has become a scientific art.

During the past three years, having talked (one on one) with hundreds of Tobacco Farmers and others interested in Tobacco from Canada to Florida and many Foreign Countries, I feel that this helps me better understand the whole tobacco picture well enough to know what most active tobacco producers have on their mind. It certainly raises many questions and furnishes some helpful answers.

To help focus on the future of tobacco I would like to quote a few short paragraphs from the 1981 U.S.D.A. Yearbook of Agriculture on the history of tobacco in our country.

"Almost 375 years have passed since the initial settlement of the Virginia Colony on the Jamestown Peninsula in 1607. And, throughout this period, U.S. agriculture has played a key role in the well-being of our nation's population.

"Colonial agriculture was a rugged hand-labor process because the machinery and equipment to ease the burden of labor had not yet been invented. Moreover, primitive transportation and communication systems of that day made an organized marketing system for farm products virtually impossible. As a result, most people were involved in some kind of agricultural production if only to produce some of the food they needed for their own survival.

"By early in the 17th century, U.S. agriculture had accepted what were to be its dual long-term roles of (1) feeding a growing local population and (2) producing goods for trade and export.

"Borrowing from the know-how of the local Indians and using the crude tools available to them, colonial farmers produced corn as their staple food crop and tobacco for export. Virginia, Maryland and North Carolina led the way in production of tobacco, while corn was grown throughout the Colonies.

"By 1775, on the eve of the War of Independence, expanded production of tobacco leaf, mainly for sale to England, had pushed export levels for that crop to over 100 million pounds. But the production of tobacco, and of all other crops, remained labor intensive as humans and animals alike shared their common task as beasts of burden.

"During colonial times, farming was recognized as an important source of income as tobacco and cotton became key commodities in international trade. A few leaders such as George Washington and Thomas Jefferson even wrote about and discussed agriculture as a science which could be explored and improved. Washington kept records and experimented with plots and rotations on his farms near Mount Vernon.

"But agricultural production did not change much. As fields were exhausted with intensive cropping of tobacco and cotton, new land was cleared and new fields established. New land was more economical than trying to maintain fertility—as long as new land was available.

"Today it is almost impossible to unravel the lines of inquiry responsible for global dissemination of modern scientific-based agriculture."

The Tobacco plant is a gift of nature containing certain chemical components that have given individuals stimulant, pleasure and recreation in our Country during the past 375 years. The Tobacco plant as we know it is quite different from that found in its natural habitat. It responds magnificently when given man's and nature's loving care and knowledge. We have at our land-grant Universities the world's best Tobacco Research and Extension Program. However, the Tobacco plant, like most living organisms, is difficult to handle if recommendations of research, extension and experience are not kept within reasonable bounds. Yes, weather can greatly compound poor results. However, grower abuse is one of the main reasons F.C. Tobacco Stabilization continues to carry large inventories of some grades and is asking for the privilege of adjusting the support price on these grades.

ANALYZING THE 1981 CROP

The 1981 crop produced 1,233,748,992 pounds; F.C. Stabilization received 8.58 percent or 105 million pounds: 58 percent of F.C. Stabilization receipts, or 61½ million pounds, was in the B K Grades. This was 143 percent of the ten-year average. Whereas only 43 percent of the entire crop was in the B K Grades.

B is the grademark for Leaf Tobacco.

K is the grademark for Variegated.

Variegated (K): Any tobacco that does not blend with the normal colors of the types; any leaf of which 20 percent or more of its surface is grayish mottled, bleached, doty-faced, scalded or sunbaked. (Unripe-Immature) Most unripe and immature tobacco comes from managerial practices.

The B Grades of tobacco are the ones that we mostly depend upon for our export customers to purchase.

The average support price for 1981 was $1.58 per pound. I would like to point out that the Eastern Belt averaged $1.70 per pound or 11.4 cents per pound over support. Likewise all belts were at least 4 cents above support. There were many growers with 10 to 150 acres of tobacco last year that averaged from 20 to 28 cents above support. To me, this says that tobacco is the life blood of the tobacco companies and that we have a good home for good quality tobacco. To insure good markets and a stable supply, I feel that Stabilization should handle approximately 10 percent of each year's production.

In 1950 a young engineering graduate from the University of Missouri, Dr. Francis J. "Pat" Hassler, joined the Agricultural Engineering Staff at N.C.S.U. Although the work horse and mule population in the U.S. had dropped from 27 million head during World War I to 8 million by 1950, tobacco production remained labor intensive as humans and animals alike continued to share tobacco production. Tractors had taken over most of the heavy field preparation by 1955.

Professor G. W. Giles, Head of the Agricultural Engineering Department at N.C.S.U., realizing that tobacco was one of the last major crops in the United States that had not become mechanized, assigned Dr. Hassler to study this crop. Fortunately, Dr. Hassler had no background in tobacco production. He approached his assignment with an open mind.

"Pat" began to study the chemical changes that take place in the green tobacco leaf during curing and what moisture and temperature conditions were critical during this process. One of the first things he discovered was that tobacco is sponged or blackened by the wrong combination of moisture and heat. Properly yellowed tobacco can be turned black-black in 30 minutes if the wet bulb reaches 113 degrees and the dry bulb is in the same range.

By 1960 Dr. Hassler had satisfactorily perfected his process in the test chambers. It was then time to get out and challenge the skeptical world. The first commercial, on-farm Bulk Barn was located on Stone Brothers Farm in Robeson County, N.C. Farmers and agricultural leaders literally flocked to see it by the hundreds. Most comments went: "It will never work"; "This is not for me—I have more cheap labor than I can work now"; "You know that tobacco won't cure packed-up like that." Some of it didn't. However, tobacco bulk curing, unquestionably the greatest advance in tobacco curing in over a century, was here to stay. We built the second commercial bulk barn on our farm in 1961, and it is still in use. It hangs full of $1.90 tobacco today because we didn't have the pounds to sell it last year. Farmers' reaction in 1961 was very similar to 1960.

However, the door had now been opened for the development of the automatic harvester. Many other problems appeared on the horizon, including the tobacco companies acceptance. They, along with the tobacco farmers, had to be shown.

One of the main problems was "How can you mechanize a four-acre tobacco farm?" This was the average sized farm's tobacco allotment at that time.

Someone came up with the idea of letting those farmers who were fazing out of tobacco production because of retirement, death, the seeking of other employment, or for other reasons, lease their tobacco to their neighbor within their county for one year. WOW—what an explosion! This idea was bitterly opposed. Some comments were, "The small farmer will be put out of business"; "The allotments will all wind up in the hands of the rich," and "Yes, even if you have a small tobacco allotment you should be required to grow it."

After five years of hard selling, by 1965 lease and transfer was with us. Tobacco leased for free (so a farmer could retain his allotment history) or up to 10 percent of support.

Also, in 1965, after over five years of abuse to our program, stabilization was holding 930 million pounds of tobacco and all indications were that unless some immediate changes were made, 1966 could add another 250 to 300 million pounds to their inventory and the program would fall from its own weight.

After 3 years of struggle, nearly all interested parties were in agreement in asking Congress to let the tobacco farmers vote on a change in the program. After our Congressional leaders all accepted the idea of the need for a change, it took only 30 days to pass needed legislation. This happened even though many had said that the tobacco farmer would not vote for a change. The vote was over 95 percent in favor, and thus "Acreage Poundage" was born.

Following shortly behind acreage-poundage was the birth of the tobacco variety discount program and the certification of varieties planted. Out of this grew the Tobacco Variety Release Committee which has functioned for over 18 years and is unparalleled in tobacco annals. This committee is made up of representatives from the tobacco manufacturers, the tobacco leaf dealers, the commercial seed breeders, the public agencies (U.S.D.A.—university personnel from 5 states), extension agronomists, farm cooperators, and farm organization representatives. This committee sets the standards for the release of new tobacco varieties.

The first 10 years of Bulk Curing developed very slowly. However, between 1970 and 1980, approximately 44,000 Bulk Barns were placed on farms. This is enough to cure approximately 80 percent of the crop.

At the time most of these barns were put on farms, energy was not considered a big expense. Therefore, very few of the barns were insulated or equipped with automatic controls. Everyone is familiar with the rise in energy cost during the past three years. The majority of this equipment is owned by the farmers who have depended on renting their allotments. Rents have gone up and the equity in most of the equipment has gone down. The technology of Bulk Curing being so new and coming on so fast, many of our farmers have not completely achieved the results they had expected and hoped for. This has resulted in many millions of pounds of tobacco going into Stabilization during the last 10 years. Fortunately there is much improvement available in this technology at this time, such as insulation and automatic wet bulb heat controls, that could update the Bulk Barns now in use at a cost of approximately 40 to 50 million dollars. Research and on farm testing have shown that these improvements should save half this amount in energy cost yearly, while also improving the grade of the cured leaf. (N.C.S.U. agricultural engineers estimated the energy cost of curing the 1981 crop in North Carolina at more than 100 million dollars and that it could have been done for less than ⅔ that amount if everyone were using the latest available technology and equipment.)

Canada has gone to Bulk Curing in great numbers only during the past 5 years.

Tobacco rentals have undoubtably been the most vocal subject among tobacco farmers during the past 5 or 6 years.

To approach this controversy, I think one must determine what is a tobacco farm. To me, any farm that has a tobacco allotment which is planted on that farm by someone at least once each 3 years is a legitimate tobacco farm. Some say this would produce a hardship on the producer. However, good agronomic practices would support this requirement.

As for those who have allotments and no land on which to plant the allotment, they should have the opportunity to dispose of the allotment by sale to someone in the county in which the allotment is held. In keeping with good agronomic practices, the purchaser should be required to have at least 2 acres of cleared land for each acre of tobacco owned.

In Canada tobacco allotments have been sold from farm to farm for many years. Ten percent of the sales are between farmers. Ninety percent are listed with real estate firms that find a willing buyer.

Adding the privilege of sale and transfer to the privilege of lease and transfer should relieve some of the pressure on the price of the transfer of allotments.

Nash County, like so many other governmental bodies, owns approximately 20,000 pounds of tobacco allotment. This is auctioned to the highest bidder on the first Monday in February each year by the Bord of County Commissioners. The county has no cleared land on which anyone could plant this allotment. However, this auction sets the rental rate for most all tobacco lease and transfer throughout the county for that year.

NASH COUNTY TOBACCO RENTAL 1982–1973

Crop year	Lease price per pound	Average support price	Percent of support	Average price stabilization receipts	Percent
1982	66.5	[1] 170.00	39		
1981	48.0	158.70	30	162.63	30
1980	[2] 20–38.0	141.50	27	132.97	29
1979	51.0	129.30	39	134.35	38
1978	37.5	121.00	31	119.72	31
1977	37.0	113.80	33	96.85	38
1976	23.0	106.00	22	98.72	23
1975	13.0	93.20	14	88.20	15
1974	17.5	83.30	21	79.37	22
1973	[3] 20.5 [4] 20.0	76.60	27	82.22	25

[1] Estimate.
[2] Rebid Mar. 1.
[3] 15,000 lb.
[4] 6,870 lb.

Mr. Chairman, during the past five years I have personally heard Senator Talmadge, as Chairman of the Senate Agricultural Committee, and Congressman Walter Jones, as Chairman of the House Tobacco Committee, make the statement that if all parties interested in tobacco could get together with a unified position, then the congressman could direct any legislative changes necessary to strengthen our tobacco program.

The best effort that I have seen to secure this unified front took place on May 15, 1980, when Mr. Fred Bond, under the direction of the Flue-Cured Tobacco Stabilization Board, sent out a letter to all organizations interested in tobacco production, suggesting the consideration of organizing a Regional "Flue-Cured Tobacco Task Force" to meet and assess the problem areas in tobacco. The Task Force would be made up of representatives of the entire flue-cured tobacco producing area which would include representatives of the farm organizations, tobacco companies, warehousemen, U.S.D.A., state departments of agriculture, research-extension and others interested in tobacco.

Mr. Chairman, I feel that the minutes of this Task Force effort should become a part of your record for study. To me, this approach to sit down and discuss issues is the proper approach. But it's got to be a team effort. If not, there is no collective wisdom.

Friends of tobacco: We constantly hear about the problems of tobacco. We recognize and appreciate the economics of tobacco to our state and nation, but are we really pursuing the opportunities of tobacco?

To me the best way to improve the agricultural economy in Eastern Carolina during the next ten years is to grow and sell more pounds of Quality Tobacco. Is this possible with the projected growth of the use of tobacco products in the United States over the next several years at only 1 to 2 percent per year?

There are many questions to be answered.

Why have our export leaf dealers invested hundreds of millions of dollars in new tobacco processing plants and equipment during the past 5 to 10 years? (Most of this in Eastern North Carolina).

Why is Philip Morris Tobacco Company shortly coming on stream near Concord, North Carolina with a new 400 million dollar manufacturing plant?

Why is R. J. Reynolds Tobacco Company going to spend one and one-quarter billion dollars in the Forsyth County, N.C. area during the next 10 years to double their entire U.S. Tobacco operation? (R.J.R. has 45 percent of the U.S. market and only 2 percent of the world market outside the U.S.)

If one watches the Tobacco Companies Programs closely, it is clear their planning stays two decades into the future.

Friends of Tobacco, if we do what is in the best interest of tobacco in the U.S., I feel sure that this will prove best for everyone with tobacco interest.

Tobacco Allotment

FOR RENT

18,757 lbs. OF TOBACCO WILL BE LEASED
TO THE HIGHEST BIDDER FOR CASH

Monday, Feb. 1, 1982

At 12:00 Noon In The Commissioners Room
County Reserves The Right To Reject Any And All Bids.

F. B. Cooper, Jr., Chairman
Nash County Board of Commissioners

[From the Rocky Mount, N.C. Telegram, Jan. 29, 1982]

TOBACCO ALLOTMENT LEASED FOR 66½ CENTS PER POUND

Nash County's 1982 tobacco allotment of 18,757 pounds was sold at auction Monday for 66½ cents per pound.

The allotment was purchased by Dyke Boone of Rt. 2, Elm City.

The 1981 allotment sold for 48 cents a pound.

Also Monday the commissioners approved an amendment to the county zoning ordinance to add an R–6 residential zone to allow high density multi-family dwellings.

The board then approved the rezoning of Pine Terrace Subdivision in Little Easonburg from industrial to R–6 and the Pine Terrace Subdivision from industrial to R–10, a low density residential zone.

The changes were made so the county's zoning would conform with Rocky Mount's zoning at the point where the two jurisdictions meet at Little Easonburg.

In other business the board:

Called a public hearing Monday, March 1, on the new names for county roads.

Took under advisement a request by Ed Webb, a member of the Edgecombe-Nash Humane Society, that he be appointed animal cruelty officer for the county. Webb said the office would not cost the county but would give him more authority in investigating allegations of cruelty to animals within the county.

STATEMENT OF DR. CHARLES R. PUGH, EXTENSION ECONOMIST, NORTH CAROLINA AGRICULTURAL EXTENSION SERVICE, RALEIGH, N.C.

In this statement, some issues are identified which may be vital to maintaining a sound tobacco program in the future. On behalf of Dr. Chester Black, Director of the N.C. Agricultural Extension Service, may I affirm the commitment of our county agents, specialists, and Extension administration to assisting farmers in their livelihood. We recognize the economic importance of tobacco in our state's economy and the need for public policy that will provide stability for the state's farmers and the tobacco industry.

Your committee is to be congratulated for seeking input on means to make the program more effective and acceptable to the public. Two premises seem appropriate as a context for these hearings:

1. That means be sought to meet the Congressional intent stated in the 1981 Agricultural Act, i.e. to operate the program without cost to the taxpayer, outside of incidental administrative expenses.

2. That the program be examined for ways that will reduce the threat of any later moves to abolish the program.

Insomuch as amendments were proposed in the fall session of Congress to eliminate the tobacco program, permit me to comment briefly on that matter. With a nation-wide concern about budget outlays, there can be no doubt that abolishing the program would have guaranteed no government losses on future tobacco crops. But there would be another set of costs from the disruptive effects of eliminating the program. The burden of these costs would be the greatest in North Carolina since this State is the nation's leading producer of flue cured tobacco and also has a significant burley enterprise. Let me summarize my analysis of some of the probable effects of no tobacco program:

1. Increased but unstable production.

Without supply controls, obviously there would be no limit on the quantity offered for market. But the resulting unstable market conditions could induce wide variations in production from year to year, which would reduce our nation's dependability as a world supplier of tobacco.

2. Erratic declining prices.

A general price drop is predictable if there were no limits on production and no price supports. No doubt, more tobacco could be sold if prices were lower. But most economic analyses suggest that the nature of demand for tobacco is such that farm prices would be driven down enough to offset the effect of the higher quantity sold. Thus, with no limits on production, gross farm income from tobacco would not necessarily increase, yet greater outlays for production materials would be required. The overall result would be lower net income for the tobacco-producing sector. The other and possibly more chaotic consequences is wide fluctuations in price around some lower level, that would add risks in the tobacco industry.

3. Some geographical relocation of production.

Within the traditional tobacco producing areas, one would expect production to shift to those areas where producers are currently paying the higher rental rates. Some other areas would obviously lose in their relative share of the crop.

4. A reduction in number of farms.

Larger, more specialized tobacco farms are likely if expansion possibilities were no longer limited by leasing. Those who find tobacco prices too low would have to considerably increase their scale of other farm enterprises in order to earn a comparable income. Otherwise, they would have to accept a lower income. With a fixed amount of farmland available, farm consolidation means that many people would leave agriculture, especially in a state like North Carolina where allotments have been assigned to so many farms.

5. No rental cost to growers who have been leasing in quota under the present program.

Their reduced expenditure may serve to offset some or all of the price drop. Data show that lease-and-transfer has accounted for about 40 percent of effective quota of flue-cured in the last five years. Until disease and bad weather caused considerable undermarketings of Burley, around 20 percent of the burley effective quota was leased and transferred. So, the stake of those who have faced rental costs needs to be taken into account. But, they, like other farmers face the risk of fluctuating prices, if there were no program.

6. A sharp decline in value of farms.

Abolishing the program would eliminate quota value on farms. This would mean a loss of annual income to those who have typically leased out quota. It is an inescapable economic reality that when there is a supply control program, its benefits will get capitalized—in the case of the tobacco program into a value for quotas. Conversely, abolishing the program would eliminate the value of quota from the equity of farms to which quotas have been assigned. The debt that may have been incurred in acquiring that quota would remain the same, so net worth would decline. This effect is of concern to agricultural lenders as well as farm owners.

If these are some of the likely consequences of no tobacco program, diligent thought needs to be given to reducing the risk of losing the entire program. Some "middle-of-the-road" alternatives may need to be examined in order to accommodate some of the issues that have publicly raised in recent months. In my appraisal of the debate, it would be appropriate to give attention to the following major areas:

1. Means of financing and operating the Stabilization cooperatives with reduced levels of loans, none of which would be nonrecourse loans from the Commodity Credit Corporation.
2. Re-examination of the rate of increase in the price support formula.
3. Means of making quotas available to those interested in growing tobacco without destroying the equity position of current quota-holders.

The ultimate resolution of some of these issues will be controversial. Some remedies might affect some parties more than others. Many trade-offs may be required. In our educational role, the Extension Service can be helpful in specifying critical issues, and in examining the probable consequences of various alternatives. It is proper that the affected individuals decide which course of action to support. To this end, let me list a series of points which various groups may wish to consider as they state their views during these hearings.

A. QUESTIONS REGARDING PRICE-STABILIZATION OPERATIONS

The Stabilization cooperatives have traditionally been the instrument for implementing the price support program. Even if some of the terms of the tobacco program were modified, such organizations potentially have a vital role for the future.

1. Should authority for an assessment program be granted to build a reserve to finance Stabilization pools?
2. Can the accounting procedure of the Stabilization cooperatives be changed to allow gains from one crop year to offset potential losses in another year? Will such procedures avoid complications with the tax-status of the cooperatives and their members? Are there means of assuring adequate collateral value to permit cooperatives to attract loans from private sources?

3. Should the cooperatives be granted authority to sell directly for export?

4. Would a moderation in the rate of increase in price support reduce the probability of losses on future cooperative stocks? Note: The size of quota that would clear the market is highly dependent upon the level of price supports. Therefore, in order to minimize losses on price-stabilization activities, it is imperative that government continue to grant supply-control authority. Without keeping the national marketing quota consistent with the price support rate, cooperatives would be placed in an untenable position.

B. QUESTIONS ABOUT PRICE SUPPORTS

The level of price supports is related to the potential volume of tobacco that can be marketed and the level of quota rents, as well as the probability of Stabilization losses. There may be considerable disagreement among various sectors of the tobacco industry regarding the appropriate support rate. The current formula changes the average support rate by the same percentage as the moving average of the Parity Index in the three previous years. In this way, supports are adjusted for inflation according to a national index of farm cost rates. Here are some questions about price supports to which various groups may wish to react:

1. Whether to soften the rate of increase in price supports?
2. If so, what method should be used?
   (a) Change the escalator in the formula to a lesser percentage than the inflation?
   (b) Freeze the support rate for some period?
   (c) Adopt a lower base price?
   (d) Allow discretion for the Secretary of Agriculture to lower or deny supports on certain grades without offsetting increases on other grades?

If a change in the effective rate of price support is contemplated, its timing is critical. Since rental arrangements are committed in advance of the production season, last minute changes in the price support structure would be very disruptive to sound farm planning.

QUESTIONS REGARDING QUOTAS

The allocation of quotas has become controversial topic in recent debates and one of the more divisive issues even among those associated with tobacco. Quotas and the resulting rents represent income to some and expenses to others. Concern about rent levels has heightened in recent years as a larger proportion of quotas has been leased and transferred In current dollar terms, rent rates tend to increase, especially in years such as 1982, when previous overmarketings reduced effective quotas. However, studies in which I have participated conclude that increases in rent rates over time are primarily explained by inflation and, in a given area, rents are about the same proportion of tobacco price as a decade ago. Unfortunately, the dialogue about rent and quota tends to center on two extremes: either viewing farm quotas as a property right, or as a government-granted license that can be unilaterally revoked. May I suggest that quotas must be utilized in some fashion if total marketings are to be held within stable levels. As an intermediate ground, the issue might be: how to make quotas available to those interested in tobacco production without confiscation from present quota-holders?

In this context, here are some of the substantive questions:

1. Should permanent sale and transfer of quotas be permitted?

2. Should periodic planting of tobacco on a given farm be required in the future in order to maintain history? Note: some potential amendments considered earlier regarding the tobacco program and some probable measures for allocating peanut quotas tend to penalize persons for past leasing actions which were legally permissible under the law existing at the time.

3. Should quotas be denied in the future to farms without adequate cropland acreage to produce the crop?

4. What measures can be adopted to inhibit financial speculation in quota? An example might be to require a buyer of quota to plant it for a specified period without resale or leasing.

Some of the measures mentioned above might encourage those who are no longer able to grow tobacco to release their quota and receive some compensation. In turn, they might provide opportunities for new producers to enter the industry without necessarily incurring the additional cost of buying extra land along with quota.

I have listed some of the questions on which your committee may wish to solicit views. My role as an economist has not been to state a preference or to imply an advocacy position for the N.C. Agricultural Extension Service. We respect the right of citizens to express their desired choices. At the same time, be assured that the resources of Extension Service and of N. C. State University can be called upon, as needed, to aid in developing a sound tobacco program. We recognize the importance of tobacco as a major source of income in our state. Extension agents in each tobacco-producing county in North Carolina devotes conduct educational programs aimed at more efficient tobacco production and marketing. We, as Extension specialists seek to undergird this delivery of information throughout the state. The School of Agriculture and Life Sciences at North Carolina State University has a commited, high quality program of research and extension work in support of the vital tobacco industry.

STATEMENT OF HOWARD D. MOYE, JR., FARMVILLE, N.C.

The flue-cured and Burley tobacco programs have served a useful purpose in the past. Farmers do need a collective marketing capability in view of the present structure of the tobacco industry and tobacco's apparent inelastic demand.

However, I feel that the present quota programs are now so out of date and inequitable to the actual producer of tobacco that only major revisions can justify their future existence.

There are dedicated public servants such as Congressman Walter B. Jones, Senator Jesse Helms, Congressman Charles Rose and others who see this need and are actively working toward a solution.

They have a very difficult task to perform. The inequities which have evolved in 40 years are many. Some people now depend on rental income from quota which they do not themselves produce. Some inherited this quota, while others purchased it.

However, anyone who expects a return from tobacco allotment quotas and is not willing to materially participate in the production of a crop is expecting something for nothing in my opinion. They therefore present a problem to the whole program concept.

The fact is that many of our most visible tobacco area leaders, such as W. A. Allen of Farmville, Atlas Wooten of Falkland among others, do share rent their quotas or otherwise accept risks of production. This is fortunate; however, it confuses the uninformed outside observer who is concerned by the financial distress and complaints of many contemporary tobacco farmers.

There are no true villians in the tobacco farming industry. We have the problem of a politically administered economic program which is too inflexible to keep pace with the rapidly changing realities of the present day.

Those who choose to cash lease their quota are only doing what is economically most advantageous to themselves. It really matters little to me if they are Carolina Power and Light or a widow dependent on this as her sole means of support. They are not to be criticized because they exercise sound economic judgment.

There are two problems today with the tobacco programs as I see them. First, the fact that we have a group able to realize returns from quota without acceptance of risk or material contribution to production has caused a gross division of interests among allotment holders, for example, quota size as it relates to price support levels. Second, the administration of an economic program via political means is cumbersome, too slow to react and due to these inherent disadvantages, will always present us with inequities and continuing economic crises. One example is a slowness to react to too high support prices on lower stalk tobaccos. As a result stabilization has inventory cost problems. Another is that all serious adjustments needed do require congressional action and by necessity expose the program concept to its foes in Congress.

Able and dedicated politically involved people have the impossible task of providing political solutions to economic problems, while trying to please the majority of their constituents. To complicate the issue, the constituents have different economic interests and the whole compromised solution must be passed by Congress. This procedure and the compromises and deals involved can lead to instances such as the immoral treatment of Maryland (type 32) tobacco farmers in 1981.

I find it distressing, yet interesting to note that almost to a man, people from tobacco areas believe "saving" their quota programs is worth any sacrifice. All their moral and idealogical principles must be subverted to one goal: Save the tobacco quota programs.

Ongoing economic problems can not be timely and efficiently dealt with in the political arena.

This is one proposed solution to the problems of the tobacco quota program. The Congress would empower the farmers of flue-cured, Burley and other kinds of tobacco to each establish a collective marketing authority. One such authority could well be Flue-cured Stabilization Corporation in a modified form.

1. The Authority should have a duly elected board consisting of representatives of all groups involved in tobacco farming—landowners and renters.

2. Membership in the co-op would be available only to those who materially participate in tobacco production. By definition, the minimum level of participation is that they must receive a share of the crop on return for quota.

3. The board of the co-op or Authority would set marketing quotas and price targets to satisfy the needs of the majority of the members as evidenced by polling and voting.

4. The board would have power to effect on short notice minor adjustments in price support rates or other matters which require rapid action to protect the interests of the members.

5. The co-op should have as its singular goal the advancement of the economic interest of its members. It must be operated to maximize the profits of members through economic analysis and adjustment of production goals to respond to changing worldwide supply—demand relationships.

6. The co-op should be privately funded with the right to assess members for equity needed.

SUMMARY

In this day of mechanized production of tobacco, "parity" is a useless concept. The goal of U.S. tobacco farmers should be to maximize total profitable return to themselves. We should not continue to allow production in other areas of the world to expand or even exist at our expense.

The eastern coastal plain of the U.S. is well suited to tobacco production. Climate, topography and the rural history of its population all favor tobacco production as a viable economic endeavor.

Abundant soil is available. For example, Greene County, North Carolina with 172,000 acres, has 122,000 acres suitable for tobacco and other high value crops.

Our topography favors mechanized production which allows us to compete with any other country on a cost of production basis despite our higher wage rates.

Our rural population has over 300 years of tobacco production history. Many of our young people have been forced off the farm due to the restrictive and nearsighted quota programs of the past. Many would prefer to produce tobacco if allowed to enter this currently restricted occupation.

We need to forsake the dependence on an antiquated, politically administered price support program in favor of an aggressive, forward looking, profit oriented, flexible, privately funded co-op with authority which will provide price protection and a vehicle to build an aggressive, growing, tobacco economy in the U.S.A.

STATEMENT OF CHARLES A. HARVEY, SENIOR VICE PRESIDENT, PEOPLES BANK & TRUST COMPANY, ROCKY MOUNT, N.C.

While there are many aspects of the tobacco program to be discussed, revised or improved to bring the program up to an "acceptability level", the first and most important consideration evolves around the "right to grow".

While the program must give priority to tobacco producers, the designation producer must have a relationship to land. Simply stated, if we continue with quotas (or allotments) they must be to the land and not to the man.

The land represents permanence. (Farms don't change but people do.)

Something in excess of 60% of the farm land in North Carolina is operated by lease or rent, not by landowners. Therefore, if quotas are not tied to the land it would be a very short time before all of the quotas would shift to a very small group of large growers.

Consistent with the theory of quotas to the land and not the man would be a program permitting the transfer of quotas to enhance unit sizes of operations; however, the land itself should also be a part of the lease rather than just quotas. (This would limit the opportunities for quota price speculation and keep farm units intact as well as keeping the quotas identified to the land.)

A further stipulation would be the requirement of maintaining the farm from which quota was transferred in suitable form for tobacco production. If this stipulation is not complied with, the quotas could be sold in that the farm would no longer be classified as a tobacco farm.

For farms on quota holders who are now without suitable land for tobacco production, or farms with small quotas (exact amount to be determined) permission should be granted for quotas (which are an asset) to be sold. (But only if the original farm unit no longer has suitable land for tobacco production.)

Any quotas that became available for sale could be sold to new growers on farms that do not have quotas as well as to other growers.

While keeping quotas tied to the land will not solve all of the inequities of the "Right to Grow" question, if quotas become the right of producers, rather than being tied to the land, we in effect will have a lottery system and new grower opportunities would diminish even further.

The most stable solution is to have a program that would keep quotas identified to actual farms that have the land in the necessary form to produce the crop.

STATEMENT OF JOSEPH E. WEBB, ELM CITY, N.C.

I am very concerned as to the resolution of the proposed tobacco program legislation. I was a tobacco producer from 1946 through 1975 and feel that 30 years of growing tobacco earned me the right to retain my allotment. It is a fair share of the equity I have managed to build. The cost of the limited amount of land that I have purchased over the last few years was substantially higher because of the tobacco allotment.

As to leasing and transferring of tobacco allotments, I feel that this program is possibly more important today than when it was implemented. There are now fewer and larger tobacco farmers. If tobacco has to be grown on allotted farms there would be less efficiency, higher cost of travel from farm to farm, more time consumed and roads more cluttered with slow moving vehicles.

Many tobacco producers lease or rent all of the land they farm. What would happen to these farmers who have invested in tobacco production equipment if nonproducing allotment owners were stripped of their allotments? It seems to me there would be no tobacco allotment for them to rent. Concerning leased quota costs, would it be feasible or legal to limit these costs, e.g., a reasonable percentage of the previous market average county wide? I would favor such a provision and have heard other farmers express approval.

If a program is enacted whereby tobacco producers are assessed to finance Tobacco Stabilization Corporation, in order to make the program self supporting, I think we nonproducing allotment owners should pay our fair share.

Finally, I am 55 years old, am still farming, raising wheat, corn and soybeans. I have no intention of retiring in the next few years; however I hope I will not lose my tobacco allotment just because I am growing food and feed crops and not tobacco.

STATEMENT OF MAX I. LLOYD, CLEMSON UNIVERSITY COOPERATIVE EXTENSION SERVICE

EVALUATION OF POTENTIAL CHANGES IN THE TOBACCO PROGRAM

The price support program for tobacco has been uniquely successful. Other commodity programs have had a history of frustration and failure in terms of unacceptable government cost or ineffectiveness. The success of the U.S. tobacco program has been largely due to effective supply controls and to flexibility in making needed adjustments. Some important changes include the variety discount program initiated in the 1950's, the change in price support in 1960, the change to acreage-poundage for flue-cured (and to poundage controls for burley), the "four-leaf" program and changes in grading standards in the 1970's. These adjustments have kept a "workable" relationship between the price support level and the market equilibrium price. This in turn has kept loan stocks within manageable limits and has kept treasury costs for the program at a minimal level.

The passage of the Foley Amendment (which is discussed in more detail in other testimony), mandates that further changes be made in the program. The administrative and legislative changes recommended by the Secretary of Agriculture in "A Report to the Congress under the Agriculture and Food Act of 1981," January 1982; would appear to be the minimum changes needed to achieve a no net cost program.

The Foley Amendment also gives the industry an opportunity to make changes needed to keep the program sound for the foreseeable future. Since the greatest threat of potential government costs is for flue-cured tobacco, the remainder of this analysis will concentrate on flue-cured. However this analysis would be applicable for other classes of tobacco if they encounter the same problems as flue-cured. The basic problem, which has resulted in excess loan stocks of some grades of flue-cured tobacco, is the erosion of the U.S. competitive position in the world market. Over the past 20 years, world use of U.S. flue-cured tobacco has declined at about 0.5 percent per year while total world use of flue-cured increased at about 2 percent per year.

There are two basic approaches in dealing with foreign competition in the flue-cured industry. One approach is to continue reducing the national marketing quota, to maintain U.S. market prices high enough, relative to support prices, to avoid accumulation of excess loan stocks.

Note: It is frequently argued that U.S. prices for export grades are competitive, since export bids for these grades are often substantially above support prices. The price comparison is correct, however we have maintained this difference by reducing supply (and forcing export customers to look elsewhere to fill their needs).

To continue with the current formula would require reductions in the basic marketing quota averaging 1 to 2 percent per year over the next 10 years. This would be the total adjustment needed to reduce current excess stocks and keep supply on tracks with the projected down-trend in use. Reductions of this magnitude appear modest. However it should be pointed out that the basic quota has already been reduced by 32.1 percent since 1975. The effective quota has been reduced by 37.7 percent during the same period. Producers are now beginning to feel the full impact of quota reductions, since the 1982 effective quota is 12 percent below 1981 and 18 percent below 1982. There is a risk of more serious competitive developments and a need for greater supply adjustments. At the same point, some export firms may elect to close down processing operations in the U.S. (as some already have) and concentrate on foreign suppliers.

An alternative approach would be to adjust the price support formula to a more competitive level with the goal of maintaining or increasing the marketing quota. Various proposals have been made within the industry for adjusting the formula, including; a freeze in price supports for one or more years, setting price supports at some percentage above the cost of production, and slowing down the annual rate of increase in price supports. The third type of adjustment has gained more acceptance among tobacco farmers. Farm organizations in the flue-cured states have generally agreed on a recommendation to limit the increase in the average support price to 65 percent of the current formula rate, for a three year period. Some of the state farm organizations have previously supported such an adjustment for an indefinite period. The impact of such a change on world use of U.S. flue-cured depends on the relationship of price to quantity demanded. (elasticity of demand). More information is needed on the elasticity of demand for flue-cured but available estimates do permit a realistic appraisal. Based on estimates of foreign demand elasticities by Steven T. Buccola and J. C. Richardson, (VPI and SU Research Bulletin 147, 1979), and conservative estimates of the domestic elasticity of demand. marketing quota could be increased by 2–3 percent per year under this alternative. This rate of increase would still allow for reaching the desired reserve supply level.

The most objective method of evaluating program alternatives is to determine their impact on owners of allotment, including nonproducers, and flue-cured producers who rent in allotment (marketing quota). Table 1 shows a comparison of the "65 percent proposal" and the current price support formula.

The annual return per pound of quota will increase at about 6.7 percent per year, under the current price support formula. With projected decreases in marketing quotas under the present formula, current allotment holders would realize an overall annual increase in the value of their allotments, of about 5–6 percent. Under the "65 percent proposal," the average annual return per round of quota for the 10 year period would be slightly higher than the current level. However quota increases would mean annual increases of about 2–3 percent in the value of current allotments. Overall, current allotment owners who don't rent in additional allotment would be slightly better off under the present price support formula if the program can survive as is.

Producers who rent in most of the allotment that they produce would be worse off under the current formula than under the 65 percent proposal. Quota rental rates will continue to escalate under the present formula. Due to the limited and decreasing supply of quota; these producers are being forced to pay above the long run breakeven level shown in Table 1. This is the only way they can stay in business in the short run, but they will not receive a sufficient return on their fixed assets to replace equipment as it wears out. This has caused a great deal of the controversy over rental rates, since recent rates are considered unfair to lessees, (tenants). The rental rate controversy is detrimental to the tobacco program and was a major argument used in the Hatfield Senate Bill and the Shamansky House Bill, in 1981. (Bills designed to kill the program).

TABLE 1.—PRICE SUPPORT LEVELS AND ALLOTMENT VALUES FOR FLUE-CURED TOBACCO UNDER ALTERNATIVE PRICE SUPPORT PROGRAMS

[Cents per pound]

Year	Index of prices paid[1]	Cost of production[2]	Present formula		Support level increased by 65 percent of present formula increase	
			Support level	Annual return to allotment[3]	Support level	Annual return to allotment[3]
1982	1098	127.3	176.1	48.8	176.1	48.8
1983	1171	135.7	191.6	55.9	186.2	50.5
1984	1246	144.4	205.0	60.6	194.9	50.5
1985	1322	153.2	218.0	64.8	203.3	50.1
1986	1401	162.4	232.0	69.6	212.4	50.0
1987	1485	172.1	245.9	73.8	221.5	49.4
1988	1574	182.4	260.7	78.3	231.1	48.7
1989	1669	193.5	276.3	82.8	241.2	47.7
1990	1769	205.0	293.5	88.5	252.4	47.4
1991	1875	217.4	311.1	93.7	263.6	46.2

[1] 1910–14 base; forecasted by USDA for 1982–86, index is assumed to increase at 6 percent annually for 1987–91.

[2] Total production cost from 1982 Clemson budget for hand harvest-bulk cured including a management charge at 10 percent of other costs. Costs are assumed to increase at the same rate as the index of prices paid.

[3] Support level, minus total cost. (This is the approximate long run breakeven value for allotment rental).

Quota increases projected under the alternative pricing formula would help relieve the high rent situation. Initially, the increase in rental rates would slow down. Eventually rental rates would return to, or below, the long run breakeven level. This would allow producers who rent in most of their quota to operate on a sound long term basis.

Producers who own a substantial amount of allotment, but rent in additional allotment are in an intermediate position with respect to price support alternatives. The impact on these producers would depend on the amount of quota that they rent in and how much the rental rate exceeds the long run breakeven level. For example, a producer who is paying 10–12 cents per pound above the long run breakeven rate, would be better off under the alternative proposal if he/she rents in more than one-third of the allotment that he produces. Many producers are in such a position. Producers who only produced their own allotment (quota), in 1975–76, now need to rent in about a third of the allotment produced, (to use their equipment capacity), because of reductions in quota. Rental rates of 10–12 cents per pound above the long run breakeven level are quite common.

The goal of no net cost can be achieved under either of the price support alternatives discussed. However, more restrictive quotas would be necessary under the current formula and quota rental rates would continue to increase.

The tobacco industry has worked together in solving previous problems and can solve current problems through the same kind of cooperation. Growers should take the initiative in making improvements in the program. The Cooperative Extension Service does not advocate or oppose any program changes but is committed to assisting the industry and tobacco farmers in solving industry problems.

WENDELL, N.C., *February 15, 1982.*

Senator JESSE HELMS,
Raleigh, N.C.

DEAR SENATOR HELMS: Tho' the chances of you reading this letter is slim, neather the less, my thoughts are directed to you and Congressman Rose. I am, at present, a tobacco farmer from Wake County, N.C. and I would just like to share some of my thoughts with you concerning the tobacco program and what I feel to be needed changes. I could not attend the hearings in Raleigh because of having to plant my tobacco beds.

I strongly feel that the program as it now stands is surely and rapidly forcing American tobacco out of the world market. I enjoy receiving $1.90 for a pile or two of tobacco, but I realize that other countries cannot continue to pay this price plus freight, plus tax (export and import) for our tobacco. Some way must be found to reduce the price of American tobacco so that we can once again be competitive and reclaim some of our lost exports. (down to about 20 percent from about 40 percent) And the only way this can be done to any extent is to reduce the price support that is guaranteed. As I see it there are two alternatives. One, do away with the program completely which could be disastrous, or two, change the program in such a way that the tobacco farmer could still have a program, make a decent living and yet compete on the world market.

I prefer the second alternative with such changes as I will try to bring out. Under our present program, allotments are tied to the land and if one is not fortunate enough to have sufficient allotment, either by inheritance or purchase of a farm, which with today's prices of land a farmer cannot pay for, then the farmer has to go out and bid for additional allotment. This practice has pushed up the cost of production above what it should be. In other words, if a true tobacco farmer did not have to pay for the use of someone else's allotment, then the average price support could be reduced by 30 to 40 cents. I would propose that the allotments by state and county remain the same, but that allotments be given only to those who actually produce the tobacco. These allotments would be controlled by the county ASC office, and one would either have to plant the allotment or return the allotment to the county ASC office. No one would be allowed to rent allotments to another person. For example, say in December I would apply to the ASC office for 30 acres of tobacco allotment, then I would be the one to plant this tobacco, and I could not rent this to anyone else. If the following December I decided not to farm the coming year, then the allotment is returned to the ASC office where it could be divided out to those who may wish for additional allotment. Each year would be a new year as far as allotments are concerned. With allotments only tied to each county and not to an individual, then the question or matter of rent becomes moot, the price can be reduced and the American farmer can then compete on the world market. If these ideas seem strange, then may I suggest that you look at the program of the country Zimbabwe. We may consider them to be a backward country but they have some pretty good ideas.

I feel that the question of allotments is the most pressing question with which you will have to deal. I do not feel that there will be much opposition to the idea that the program become self sufficient. However, some of the other ideas that are being advanced by the Farm Bureau, the Grange and others are nothing more than pouring oil on troubled waters. For example, the idea of requiring tobacco to be planted on the alloted farm one out of three years does nothing but add extra expense to the farmer that grows the crop and keeps the allotment in the hands of the non-growers.

I know that most of the testimony that was given at the first two of your committee hearings came from organizations that supposedly represent the farmer but don't be misled—a lot of their programs are derived by colleges, tobacco companies, and politicians, with very little input by the farmer. (I will admit that the farmer is to blame for giving up control over setting policies that effect him.)

If the tone of my letter seems to be a bit bitter, then it is. I am tired of lawyers, doctors, real estate people, fertilizer dealers, tobacco warehousemen, and politicians that have taken control of tobacco allotments to the detriment of the tobacco farmer, the one who has to take all the risks, do all the work, and gets darned little in return. It seems to me that all the ideas that are being pushed by the large organizations are still status quo with just a little sugar coating. They do little to solve the problem except to stave off the inevitable. Sometimes I really feel that the "powers that be" have nothing but contempt for the average person, that the average farmer, in this case, has little to contribute because he doesn't wear a necktie, doesn't associate with the "powers that be", doesn't bend elbows socially. This country would do well to realize that all the "brains" are not in politics or government or high level organizational bigwigs.

Thank you for taking the time to read this letter. I really don't do this type of thing but I felt like I needed to express myself to someone.

Sincerely,

William J. Ammons.

Charles H. Manning,
Attorney at Law,
Williamston, N.C., January 20, 1982.

Senator Jesse Helms,
Chairman, Agriculture Committee, U.S. Senate,
Senate Office Building, Washington, D.C.

Congressman Charles Rose,
Chairman, Subcommittee on Tobacco and Peanuts, U.S. House of Representatives,
House Office Building, Washington, D.C.

Gentlemen: This letter is prompted by one of the resolutions adopted by the North Carolina Farm Bureau at about the same time the Farm Bill was recently adopted by the Congress. My County, of Martin, draws its life-blood from allotted peanuts and tobacco, and being the owner of some farmland with approximately 12 acres of peanuts and 8 acres of tobacco, I join with all the other farmers of this County, and other citizens as well, in expressing our sincere appreciation for all that you two gentlemen did in getting the Farm Bill adopted. Actually, you saved us from complete ruin.

I was raised on a tobacco and peanut farm and I have suckered tobacco, ploughed it, primed it, and graded it for market. I received my law degree from Wake Forest in 1939 and I practiced law here until 1968 when I became a North Carolina District Judge. I retired from the bench a year ago and since then I have engaged in a limited law practice. While at college I spent my summer vacations measuring allotted crops, and later much of my law practice had to do with the economics of farming and those involved in farm productions, including the handling of farm loans. In other words, I am convinced that my background and experience entitles me to express my opinion at this time, and I specially refer to the resolution adopted by the Farm Bureau which sanctions the sale of tobacco allotments. I am thoroughly convinced that the enactment of this proposition into law will not only deal a killing blow to the small farmer, but in the end will kill the farm program itself.

There are large numbers of widows and retired farmers, who not being able to handle the peanuts and tobacco, are renting their allotted acreages to younger farmers in the neighborhood, and the rent from their allotted crops is what they primarily depend upon for their livelihood. Some of these younger farmers have become substantial and what they will do is tell some poor old retired farmer or his widow, "No, I will not rent your tobacco and peanuts any longer, but I will be glad to buy your allotments." It will be like a forced sale and the price will therefore be ridiculously low. The result will be that these poor old people won't even have a farm any longer, but just a piece of land. Some might say that it can be used for soybeans and corn, but we all know that a 25 or 30 acre piece of land is entirely too small to survive as a grain farm.

Many of these people used to rent their land on a share basis, but it has now gotten so that they're being told that its either rent the allotments or nothing, and share farming is fast becoming a thing of the past. More than that, in most instances, the crops are being moved from the motherland for cultivation.

Consider the fellow who is still able to farm his modest farm and he experiences a bad year or two rendering him heavily in debt. Consider the widow or the retired farmer who find themselves in need of money for various reasons. To save themselves they will sell their allotments and that will spell the end of their financial independence. Makes you think of poor old Esau, who, when he got hungry one day, got taken by his brother, Jacob.

On the other hand, look at what will happen to the larger farmers who are now renting allotments and will be wanting to buy if the "sale" provision is enacted into law. The way in which the farm program was attacked in the last Congress, the "allotment purchaser" has already been forewarned that allotments are certainly not a sure thing and he therefore cannot be expected to be willing to pay but mighty little for them. Every time the Farm Bill comes up before the Congress, he will be faced with the real likelihood of being wiped clean of his allotment purchases and would be bankrupt.

Consider this also, much of the criticism of the Farm Bill was pointed to the fact that more and more of the production is getting into the hands of the big farmer, and this would be enhanced if the "sale" provision is adopted. Thus, you would be providing the critics with more ammunition with which to shoot us down. Don't think for one minute that you will ever hear of a small farmer purchasing an allotment from a large farmer.

There are relatively few farms today which are free of mortgage coverage, and only a bare minimum of the farm mortgages include any specific coverage of the allotments belonging to the mortgaged farms. Lending agencies, institutions, insurance companies, and individuals have been so confident of the continuation of the farm program that it has never occurred to them to try and create a lien on the allotments, as the law has always been that the land and its allotments are inseparable. Even if there would be a provision in the new law that the allotments would automatically become a part of the mortgaged security, you would be faced with the question of whether the Congress had such authority. It would be like adding a clause to a legal document already signed, sealed, and recorded in the Public Registry. It would be in the nature of an Ex Post Facto law and I very much doubt its legality. Will an allotment become "personal property" as opposed to "real property?" Will an owner be able to borrow money on it like it was an automobile or a tractor? Just look back over the past forty years and picture what would have happened if allotments had been for sale. What would have happened in the flue-cured and peanut areas would have been mild compared to the burley area where the allotments are much smaller.

All land values in tobacco and peanut producing areas have been based primarily on the acres of peanuts and tobacco allotted to a particular farm. Every application for a farm loan has a specific question concerning the acreage allotted for these crops. I think you will agree that the market value of a farm with reasonable allotments is worth twice as much as a farm without any. The tax base of a county is largely based on allotments also. I am reasonably certain that the average farm mortgage is for much more than half the value of the land, and as to lending by government backed agencies, such as the Federal Land Bank, the ratio is much greater. If the farm program respecting tobacco and peanuts is killed, or if people who have mortgages on their farms start selling off their allotments, you'll see a "bust" that will make "Hoover days" seem like good times. The loss to the government lending agencies would be many times more than the cost of the farm program, and the government would become the victim of its own mischief.

Ever since the first farm program was enacted under Roosevelt, there has been a very small element who have wanted it so they could buy allotments, but those with better judgment have always been able to show the lack of wisdom in such an idea. Now, all at once the proposition gets adopted in a resolution by the Farm Bureau. In the excitement of the attack on the Farm Bill, did they act too much in haste? Was there no one there that day to speak up for the small farmer? Has the Farm Bureau become the advocate of only the larger farmers? I was shocked and amazed to read about it in the paper the next day. I am sending a copy of this letter to John Sledge, President of the Farm Bureau Federation, with the earnest request that more time be taken to study this matter of the sale of allotments, as I strongly and sincerely feel that what was done was not in the best interest of the farmer. It will simply be a disaster if legislation is enacted based on this resolution.

Just imagine what it would be like today if it had been lawful during the last forty years for a farmer to sell his allotments.

Now, I want to stop being critical of the Farm Bureau and express the appreciation of everyone for its efforts in getting the Farm Bill enacted. I wish to say also that the other resolutions adopted on the occasion mentioned are in the very best interest of the farmer and everyone else. Foregoing support for undesirable tobacco has been recommended by our Congressmen for quite sometime, but up until now the Farm Bureau would not give an inch, and I've never been able to understand it, when Stabilization was being stuffed full of this tobacco. So, hooray for this change in attitude.

Another resolution which I consider to be in the best interest of everyone, including the taxpayer, provides for Stabilization financing.. The critics don't like us because we're using Federal money to finance Stabilization, and they have a good point in this time of budget cutting. So congratulations to the Farm Bureau for resolving that we do our own financing. A small percentage of the proceeds from the sale of tobacco and peanuts for a few years would create a whopping pot and would be barely missed by the farmer from his check. Let the allotment lessor also contribute to this pot. If we can ever deprive the critics of the money issue, you will leave them without their primary ammunition. Let us read the writing on the wall and cure the sores which are causing us pain. If we turn our backs and go on in the same haughty ways of the past, we may just be deserving of our fate.

One last thing. There is no legitimate reason in the world why a person or corporation should be allowed to keep an allotment when the land has been taken out of production of any crop, for development, for planting trees, or for any other purpose. Where there is no longer enough land to accommodate the allotment acreage, then the allotments should go back into the pot, as the owners had a choice of keeping or destroying the farm. This sore spot has supplied the critics with ammunition for quite a while and our best interests will be served by correcting this practice.

Gentlemen, I sincerely hope that this letter will help to convince you of the dangers and pitfalls of the "sale" proposition, and I strongly urge that you do all in your power to defeat any legislation which provides for same. I also urge that you support legislation in connection with the other Farm Bureau propositions which I have mentioned.

With appreciation and best wishes, I am

Very truly yours,

CHARLES H. MANNING.

CHARLES H. MANNING,
ATTORNEY AT LAW,
Williamston, N.C., February 19, 1982.

Re Farm Program.

HON. JESSE HELMS,
U.S. Senator, Senate Office Building,
Washington, D.C.

DEAR SENATOR HELMS: Recently I wrote you a lengthy letter concerning crop allotments and you were kind enough to acknowledge it, and to state that you would like to insert it in the official hearing record.

Of course, I will be very pleased and grateful if you will do just that.

The word going around now is that any peanut allotment will die unless the crop was cultivated on its own farm two out of the last three years. If this be true, such a law should not be implemented until an owner has had a three year notice. I think the law is good in that crops should be cultivated on the home farm, but no one should be slapped down without having the opportunity to do right. Is it right for the government to say its O.K. and then take an allotment away for doing just that? Actually you would be depriving a person of his property without due process of law, as prohibited by the Constitution.

Also to do such as that would be in the very nature of an Ex Post Facto law which is also prohibited by our Constitution. Simply put, it means that no law shall be effective unless enacted prior to the violation.

My thanks again to you and all the others who are laboring so diligently to save the farm program, and thanks again for hearing me.

Sincerely yours,

CHARLES H. MANNING.

An after thought: Since our opposition criticizes the practice of crops not being cultivated on the home farm, lets just simply do away with leasing of allotments and get back like we started with the Farm program. In retrospect, it was a mistake to ever allow leasing in the first place.

BROCK, FOY & PROCTOR,
ATTORNEYS AT LAW,
Trenton, N.C., February 23, 1982.

Hon. WALTER B. JONES,
U.S. Congress, First Congressional District of North Carolina,
House of Representatives,
Washington, D.C.

DEAR WALTER: It was nice to see you at the tobacco meeting in Kinston, North Carolina last Tuesday, February 9, 1982. It was also nice to see you looking so well.

I had wanted to make a statement but there had been so much babbling going on that I thought it was best to come back and write a letter concerning my opinion about the tobacco program and its future.

First, I own several farms in Jones County; the largest of which descended to me through my father's family which they have owned since some time in the early 1700's. All of this land carries a tobacco allotment and I feel that I have a vested interest not only in the land but in the allotment which it carries. For many years this land was farmed on halves, whereby the landlord furnished half of all the supplies. The person cultivating the land furnished half of all the supplies and all of the labor. All buildings were furnished by the landlord where the tenants resided. About 1955, I began farming on thirds where the tenant furnished the equipment or mules, whichever the case might have been. and I paid one-third of all other expenses and received one-third of the sale of crops. This continued until about 1977 or 1978 at which time I felt since I started drawing Social Security and the people tending the land were also tending some of their own land, I decided to lease the land for sure rent. My land consist of about 300 acres of cropland and all of the tobacco is tended on my home place. I lease the tobacco for $.50 per pound and allow the person cultivating and harvesting the land to have all the other land in that particular township which is about 250 acres free of any rent, which I feel due to present circumstances is a fair rent. My tobacco has never been raised on any land except my own. I have a very satisfactory arrangement with the person tending the land and have advised him that any year that he is not making some profit from my land, I want to know about it and we will make different arrangements about the lease agreement. My total poundage is about 40.200 pounds.

From the above, you can understand from a purely selfish interest I would not be interested in seeing the tobacco taken away from my land and given to some producer. Since 1933 this land has been valued for ad valorem taxes at a much higher price than it would have been without tobacco allotment to the same and this has been over a period of almost 50 years. Regardless of this, I would want to see the tobacco program changes that are necessary be made so as to be mutually beneficial to the entire tobacco industry.

I do not feel that the Committee, and in particular Representative Rose, really understands the producer situation and I feel that it would be very poor judgment to transfer any allotment to a producer without the owner being properly compensated for the same and even then I do not think that it would be a very stable program. The so-called producer is about 80 percent to 90 percent responsible for the exorbitant prices that are now being paid for the lease and transfer of tobacco poundage. They have bought a lot of equipment and in many instances through very liberal credit arrangements with the Federal Land Bank. Production Credit Association, Farmers Home Administration and commercial banks and have purchased the so-called bulk tobacco barns at very high prices and feel that they have to fill each one of these barns to its capacity and for this reason I do not feel that a great many of the producers are going to remain in business for a long period of time. So what is going to happen to the tobacco in the event they go broke (statistics will show this in the very near future).

I also am very sympathetic towards the very small tobacco farmer who owns anything under 10,000 pounds because generally speaking the person leasing that small amount of land is not going to the land and cultivate it because it would be too expensive to move his equipment around to cultivate small acreages and the idea of someone with 1,000 to 1,500 pounds having to cultivate their tobacco on their land, one out of every three years would negate their whole situation. In many instances they need the income more than anyone else.

In regards to the tobacco industry, from farmer right on through the consumer, I feel very strongly that the tobacco program should be supported by all facets of the tobacco program that includes the farmer, producer, the tobacco industry and the consumer with the long-range idea for the government to get entirely out of the tobacco program.

The tobacco program since its outset in 1933 or 1934 has certainly not been a perfect and fair program. At the outset of the program there were many people, particularly in the Committees, that had as much tobacco allotment as their own land. If they wanted to cultivate other crops or gardens, it was necessary to rent additional land. I remember very vividly that when the tobacco poundage program went into effect Jones County was declared a disaster area. In 1959, 1961 and 1962, however, it was necessary for this County to use one of those disaster years in order to establish the poundages. For 1959, 1961 and 1962 the average poundage in the County was around 1,300 pounds. In 1960 and 1963 the average pounds per acre was 2,100 pounds and I figured every farmer in Jones County lost approximately 200 pounds per acre because we had to use one of those disaster years. I am sure you remember that I went to Washington with several other farmers and you appeared with us before the Tobacco Committee and everyone admitted that it was wrong but under the program nothing could be done. I pointed out to, I believe it was Mr. Godfrey, that there was a paragraph in the program which stated that they had the right to correct any inequities but I was advised that this was not one of the inequities that they were talking about. As you know, many farmers in Jones County and other counties do not have a tremendous amount of education; and while this has never happened to me personally, if a person sold over their 110%, they were penalized by the program deducting their tobacco allotment and also charged a very severe penalty. If the farmer did not know that he was selling over his 110% and the warehouse or the ASC person at the warehouse had made a mathematical error in subtracting the poundage from his card, then in this instance his tobacco allotment was deducted. In other words, the burden of proof and all of the conditions in the program placed the full burden on the farmer and not on the ASC Administration. The rules and regulations of the program over the years have been so worded and administered that it is very ambigious and complicated and most farmers have been at the mercy of the ASC Administrator in their particular county. The average tobacco farmer is placed in such fear that he feels he can not exist without the Government's bureaucratic supervision. To point this out, when I came back from Washington in 1964, I decided I did not want any part of a program that could not correct the inequities that had befell Jones County when we made the change from the acreage program to the acreage-poundage program and decided I would vote against the program the next time it came up. I did this; and when they counted the votes, there was only one vote against the program in my township. This gives you some idea of the fear and frustration of the farmers all over this land.

I see nothing wrong with anybody within counties being allowed to sell their tobacco allotment if they see fit. However, I feel that the price and the selling should be between a willing seller and a willing buyer at a price to be set between the two but I definitely feel that it should be done within county lines. It is also my feeling that where there is corporations, municipal utilities or otherwise should have the opportunity to sell their tobacco within county lines but that it should not be taken away from them without adequate compensation.

I realize that one of the problems with the farmers throughout the years has been one where they are unwilling to cooperate and work together in an unselfish manner for the best interest of the farming community and I strongly advocate in this instance that they put aside their petty jealousies, selfishness and try to work for the tobacco program that would be best for all.

I have before me a report which is entitled Report Summary—A Study of the U.S. Tobacco Industry's Economic Contribution to the Nation, Its Fifty States, and the District of Columbia 1979. This is published by Wharton ARC, the Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania 19104, which indicates that each state and the District of Columbia have received considerable contributions in the way of taxes, state employment and personal compensation. In 1979, for state and federal tax receipts it shows a total of $8,760,379,000.00; contributions to personal compensation of $29,900,000,000.00; direct and indirect contributions to state employment of $2,052,000.00. It would appear to me that these figures could be used with some of the Congressmen from states like California and New York and others to show that they are not only cutting the tobacco farmer's throat but cutting out a considerable amount of taxes to their own state.

In closing, I would like to say that I would be willing to come to Washington and meet with any of the Committees concerning my feelings and I generally believe that my feelings stated in this letter are the feelings of the majority of the tobacco farmers.

If you feel that you would want to talk with me about the situation, please have Floyd Lupton to call me and I might be able to elaborate more. Thank you for the manner in which you have served Jones County over the years and I am satisfied that Charles Whitley will do everything in his power to serve us well.

With kindest personal regards and best wishes, I remain

Yours very truly,

DONALD P. BROCK.

BEAUFORT COUNTY, N.C., *February 17, 1982.*

U.S. HOUSE OF REPRESENTATIVES,
Committee on Agriculture,
Subcommittee on Tobacco and Peanuts,
Washington, D.C.
(Attention: CHARLIE ROSE, WALTER B. JONES, and CHARLIE WHITLEY)

DEAR COMMITTEE MEMBERS: Regarding proposed changes in our current tobacco program: it is probably the consensus of most growers and allotment holders that in some instances lease prices are getting out of reason. It would seem, the only fair solution for each concerned would have to be a controlled lease price, determined by a responsible committee, informed enough to set a fair price for lessee and lessor, even if the allotments had to be pooled at ASC Offices, as has been proposed. Administrative costs for such a program could be shared by grower and allotment holder alike, and not by the Federal Government.

Lease and transfer; a system devised for tobacco farmers to adjust their tobacco acres from one farm to another within the county, has worked well for approximately 20 years. During this time farmers have geared their farming operations to fit this system; and to dispose of it at this point would be a real upset to all growers and allotment holders. Many have expanded their facilities to grow more acres of the crop within their farm and nearby farms with leased allotments; while others have ceased their operation mainly because of small allotments, retirement, becoming widowed, etc., and leased their allotment to others. Therefore without lease and transfer, the farmer who wishes to lease extra acres and lbs. could end up traveling miles with a lot of equipment to tend 2 or 3 acres adding extra expense to his farming. Some allotments are so small and isolated, it would probably be impossible to get it tended.

The idea of taking allotments away from non-growers is not even American. This is not a Social Services Program. Regardless of his age, retirement, financial status, etc., his allotment is a property right which cost money included in the purchase price of his farm.

Many of us farmers with small allotments wish to continue lease and transfer. It can work satisfactorily if worked at.

Sincerely,

H. ALTON TAYLOR,
Community Member, N.C.A.F.E.C.

STATEMENT OF TOM CUNNINGHAM, DARLINGTON, S.C.

Mr. Chairman. members of the committee, my name is Tom Cunningham from Darlington, South Carolina. I am State President of the South Carolina Association of Farmer Elected Committeemen (ASCS). I am sorry that I could not present this statement before you today, but a prior obligation prevents me from being in attendance. I do appreciate the opportunity and privilege to express my views in written form on the tobacco program.

Lease and transfer of tobacco as stated in the Agriculture Adjustment Act of 1938, as amended, states that, "The approval of a transfer by lease filed after May 15th shall:

(i) Omit;

(ii) Not be made if the effective farm marketing quota on the lessor's farm exceeds 2,000 pounds unless the acreage of flue-cured tobacco planted on both the lessor's and lessee's farms during the current year was equal to at least 80 percent of the allotment in effect prior to April 15.

Mr. Chairman and members of the committee, I would like to suggest that this act be further amended to state:

> that a transfer by lease shall not be approved filed after April 15, unless County ASCS Committee determines that a natural disaster has prevented said producer from making normal crop. The recommendation would have to have concurrence from ASCS State Committee.

Mr. Chairman and members of the committee, I truly believe this slight modification would strengthen our existing tobacco program. Any speculation that presently exists in lease and transfer would be almost completely eliminated.

Mr. Chairman and members of the committee, I appreciate the opportunity to submit my recommendation to you. I salute the committee on their support for our tobacco program as well as their sincere interest in the well being for our tobacco program.

WHITEVILLE, N.C., *February 19, 1982.*

Hon. JESSE HELMS,
U.S. Senate,
Washington, D.C.

DEAR SIR: I am a tobacco and grain farmer in Columbus County. I farm 17 different farms for a total of 105 acres of tobacco and 800 acres of grain. This tobacco is transferred and planted on 3 different farms because it would be economically impossible to farm these allotments on 17 individual farms.

Two-thirds of these farms are owned by widows or retirees. They do not have any way of housing this tobacco on their individual farm because their barns have deteriorated over the years. If these allotments had to be grown on the farm the allotment is assigned, they would have to build new barns, which would be economically impossible and they would be forced to sell their allotments. These allotments were bought by these people when they purchased their land. What right, under an American Democratic Government, does anyone have to take these allotments (as was done under the peanut program) away from these people or force them to sell their allotment.

I do not like these high rental prices either but does anyone have the right to set the price other than the owner of the allotment? Who sets the price we pay for fertilizer, chemicals and equipment? I haven't heard of any congressman holding any hearing to help regulate these prices.

There are more people involved in farming tobacco than just the grower himself. Is the grower the only one who deserves being protected?

What does lease rental prices have to do with the government involvement in the tobacco support program? Lease transfer and rental prices have nothing to do with the Tobacco Program cost to the government and should be left to the farmer to work out. I thought we wanted less government in our farm program but you congressmen are trying to put more government in it.

The decisons your committee make could mean the life or death of a lot of farmers. Enough were destroyed because of the peanut program. Please give this your urgent attention now before it is too late. If possible, I would like to have a reply on how you feel about this matter.

With kindest regards.

Sincerely,

BOBBY C. COLLINS.

WILLOW SPRINGS, N.C., *February 17, 1982.*

DEAR SIR: Enclosed you will find a copy of a letter that I sent Congressman Charles Rose, D-NC, pertaining to the proposed upcoming changes in the tobacco program. Since I wrote this letter, I have attended the hearings in Raleigh and Clinton and would like to offer some additional material to you on this matter.

If you think that if you pass a bill to allow these allotment holders to sell their allotments, that they are going to sell on a volunteer basis, you are in for a "big surprise". They are not going to sell unless you compel them to sell.

Since yesterday, I have talked to no less than eight (8) people who own allotments, and do not farm, and asked them if they were allowed to sell their allotment and keep their land, would they sell. All eight (8) of them said they would NOT sell unless forced to. Among them, were one lawyer, one building contractor, one retired businessman (Hardware), and one beef farmer, one retired tobacco farmer, one Postman, and two local men, who are traveling salesmen.

Please sir, do not be deceived or fooled into anything like thinking that these people will sell, just because they do not actually farm themselves.

I think that they should either tend the tobacco, or sell it—period! I think that it should go back to the grower as it was issued to them, and was intended for, as it was back in the 1930's when it was given out, only to the growers. I don't think that anyone should be allowed to purchase or inherit any allotment now, or in the future, unless they are going to grow it themselves.

The only way that I think that my children should inherit any allotment, is that they farm it themselves and if they don't it should be sold upon my wife and my death and then only to someone that is going to grow it, not to someone else, as an investment.

I have talked to at least 200 farmers since last August about this matter and I have not talked to anyone who is not in favor of just what I have said in these two letters. These people have been around the tobacco warehouses, around country stores, wherever you see them, and they all will tell you the same thing. These people will not get up at a hearing like was held in Raleigh and talk, but you get 3 or 4 into a conversation and they will tell you alot, one-on-one.

If you could just spend one day out here with me talking to them, you could learn more in that one day talking to a few here and a few there than you could learn in six months of hearings, because as you know, most people are not going to speak in public, because they are scared of who will hear them, and also what might happen down the road when they may have to call on their superiors for something. The overwhelming majority of the farmers are in the same boat that I am and have stated in the other letter. If there is not some drastic change made shortly, a lot of us will not be farming within 3–5 years and I don't mean one here and there, either. I mean alot. All you have to do is talk to them and they will tell you the same thing.

I am inviting you now to just let me know when you want to come and I will make sure that you talk to some of the "grass roots" farmers, the ones that actually do the hard work and sweat and not some organizational farmers from behind a desk.

I now have a few more proposals for you to consider, please.

1. That you cut out fall leasing and transfer. I propose that if I am within my allotted acres and have some tobacco left over that I be allowed to carry it to the warehouse, let stabilization grade it, buy it at whatever price that they grade it at, pay me for half of it, and they keep the rest, process it, sell it and put their half into a pool to purchase the stabilization with. If the way that it is now, I have some tobacco left over, I have to buy poundage from someone that did not make theirs, or a speculative one, and I only receive half of the money that I would if I had enough pounds to sell anyway. The other half, I have to pay for rent to sell the pounds with, to this speculator.

This would do two things. First, it would let me get rid of my excess tobacco, even at ½ of the price of what stabilization put price on as, and second, we could pay for stabilization in a much shorter time. For instance, I have 1,000 pounds carry over and they grade it at $150 per pound. I get $750 or 75¢ per pound and they keep the rest, and sell it and put money into a fund for purchase of stabilization with. It would stop alot of your black marketing of tobacco, plus, it would keep me from having to carry over these pounds until next year.

These pounds should not be counted against my quota next year, because I certainly would not intentionally try and make any excess pounds, not for 75¢ per pound, and if they didn't put a grade on it, I couldn't sell it anyway.

2. That you finance the sell of tobacco allotment through a fund from the Government that I can borrow money from, on this allotment sale, to be paid back within (for example) 7 years with interest. If you don't, most people like myself, won't be able to buy any of this allotment, because we don't have the funds to purchase it, and there again, the "big" man gets it all.

If our Government can give, loan, or whatever, to El Salvador, give them training, guns, helicopters, etc., and pay-off a big debt for Poland, and alot of other countries borrow at a cheap interest rate from us, we certainly ought to be able to get some of this money to our own at a reasonable rate. We will pay ours back we don't know about the other people.

3. That ALL the allotment to be sold be placed into a pool at the county ASCS and that all that want to buy any, be allowed to do so equally and receiving equal amount of pounds that are for sale.

4. That all certified growers in the county be allowed to buy pounds that are sold, regardless of whether they own any land or not.

To not do so, would be doing them wrong and unjust and I don't think that it is fair to them, not to allow them to buy these pounds. That is the same thing as telling any farmer that he can't buy a tractor, because he doesn't own any land to plow, and this is what we are trying to correct now—the things that have been done wrong in the first place, a long time ago.

I respectfully ask your consideration on these things that I have mentioned, and I stand ready, willing and hopefully able to assist you on any and all matters which you may have a question on, from here at my home to the halls of Congress where you are, including any study committees you may require or request. If I can be of any assistance at all to you, please do not hesitate to call on me.

I look forward to hearing from you at your earliest convenience as to what your views are on this matter, as it is of the utmost importance to me and the ones that I have talked to and confided in.

Sir, as my Senator and chairman of Senate Ag. Committee, I, along with a few other farmers respectfully request a couple hours of your most valuable time at your earliest convenience to discuss some matters with you. I know and realize that you have a most busy schedule, but, sir, this is very important to us, if it wasn't, we wouldn't make such a request.

I hope that you read these letters personally, sir, because you are the one that is going to vote and we think that you should be aware 1st hand of what is going on. Please allow this meeting, sir, anytime you say, hopefully the next time that you are in Raleigh, any place you say—anytime, including a weekend, if we have to, just so we can get a meeting with you.

Thank you.

Respectfully,

RALPH M. DENTON.

WILLOW SPRINGS, N.C., *February 8, 1982.*

DEAR SIR: I am writing you this letter to voice my opinion on the tobacco issue that you are currently holding hearings on, and also request that you register this letter and make it a part of your official hearings, into the register.

I am a farmer in Wake County, N.C., and I own some 5½ acres of tobacco allotment of my own, and I also lease some 50 000 pounds or approximately 25 acres additional tobacco allotment and plant it.

If there isn't some major overhauls done to the lease and transfer program, I will soon have to sell or be sold out of my home and my farm. Tobacco prices have gotten completely out of reason and instead of getting any better, it is getting worse every year. I'm having to pay some 50 cents per pound for poundage, 15 percent interest on the money to lease this tobacco, some 5 cents per pound warehouse charges to sell it, and now the grading services, another increase to the tobacco associates program, and now I'm probably going to have to pay even more so that we can purchase and pay for the stabilization program. When you add all of these costs together, you are talking about a minimum of 70 cents per pound that I have in my tobacco. North Carolina State University said in 1980 that excluding rent, that it cost you $1.10 per pound to produce it, and that was before they raised the tobacco associate increase, started charging us for the grading services, or said that we had to buy the stabilization, and there's no need to say to put some of the cost onto the allotment holder, as it will just come back to the person that leases it in a higher lease bracket. They say that the 1982 crop is going to be $1.75 per pound and it doesn't take much of a person to figure out that it will not reach. I am not in this boat by myself, I'd dare say that there are some 85–90 percent of the people that are in the same predicament that I am in.

If there is not something done and done quickly, I will not be able to keep going and I will most likely lose all that I have worked for all of my life, and I am 45 years old.

All of this talk that you hear about the poor widows or widowers does not hold water. I'll admit that there are some in that situation, but not nearly as many as you have been lead to believe. I have read recently in newspapers and magazines that a whooping 62 percent of allotment holders do not plant their tobacco. I'll bet you that no more than 20 percent of these people are retired or widowed. The vast majority of these holders have inherited it, or have bought it as an investment and people like myself are having to make a huge investment in equipment and rent to try to make a living out of the tobacco that we are forced to lease.

These people do not plant this tobacco now, nor do they ever intend to plant it, and I think that it is wrong for them to own the allotment, leasing it year after year and taking no chances at all with the weather, prices or anything else. All they want is top dollar for their allotment, and want it as soon as they can get it. I would like to make the following suggestions and recommendations that the government purchase the allotment at a fair and reasonable price, (a committee could be set up in each county for this appraisal and it to be county-wide appraisals) from any and all allotment holders that have not planted their tobacco at least 2 out of the past 3 years (1980–1982) and put it into a pool to be divided equally among active tobacco farmers within said county and that active tobacco farmers purchase this allotment from the government at the same price that the government paid for said allotment with interest paid on the money to buy allotment.

I think that a period of 5 to 7 years should be allowed to pay for this allotment. This way, you are not taikng anything away from anyone, you are paying them for their allotment and still leaving them with their land.

The vast majority of us need some relief now, not way down the road somewhere. There was, and is a lot of farmers being forced out of Farming all over Wake and surrounding counties this year and from the people that I talk to, they, like myself, are almost to the point now and only time will tell how long we can hang on!

There is no need to say to give these allotment holders time and they will sell. They will never sell until they are forced to, as long as the program stays as it is now. We, sir, need some help now, in 1982 to be instituted for the year 1983.

If I could buy this allotment and have long enough time to pay for it, I would be able to buy some additional equipment which I desperately need and cannot afford to buy under the present set-up. Also, we would be more able to cope with the proposal price support adjustment, if we owned the allotments ourselves.

I sincerely hope that you will give considerable consideration to these proposals.

Please let me know if I can be of any service to you in the future.

Sincerely,

RALPH M. DENTON.

FUQUAY-VARINA, N.C.

Hon. SENATOR JESSE HELMS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HELMS: The tobacco program we have today benefits those who own farms which have allotments they lease out, but is of little benefit to the producer.

Most producers lease some or all of the quotas they produce. Many producers have increased their net worth in the last few years. Some have gone bankrupt. I suggest you contact the Farmer's Home Administration, the Production Credit Association, and the Federal Land Bank, to verify this.

Farm mortgage lenders, such as those above, value an acre of tobacco allotment at $4.000.00. I have leased the same six farms for the last seven years, and have paid $5,334.00 over a period of seven years, for each acre I've leased. Some allotment owners that lease out quotas inherited them. As for those that did buy their allotments, it seems that over 100 percent return on their investment in seven years, is unreasonable compared to what the producer has received.

We might think that if a few producers have to quit farming, there would be less of a demand for quota, not so. Since 1975, quota has been reduced by 21½ percent, and some producers have quit farming. But today demand for and price of quota has increased greatly. Lease prices in Wake and Harnett counties have increased 10 to 20 cents per pound above 1981 prices.

I personally know a lawyer, a tobacco warehouseman, a fertilizer dealer, a retired farmer, and even an automobile salesman that lease all the allotments they can get for speculation, which increases the price to the producers. All these things create a greater danger to the survival of the tobacco program than outside forces do.

I have read that the rice allotments belong to the producers, and not the farm. I believe it is in the interest of society, as well as the tobacco program, to give the allotment to the producer. The producer should be put first, not last. I believe this would create more producers, better quality, and more exports of tobacco.

I support the resolutions presented February 3, 1982, at Dorton Arena in North Carolina State Fairgrounds, by the Tobacco Growers Association.

The survival of a lot of producers depends on what is done now, not 2 or 3 years from now.

Enclosed is a copy of a letter written to the Flue-Cured Tobacco Farmers magazine in September 1981.

Respectfully yours,

WILLIAM M. DENTON.

Enclosure.

FUQUAY-VARINA, N.C., *September 28, 1981.*

The March issue of the "Flue Cured Tobacco Farmer" published an estimated budget prepared by NCSU which shows the cost of tobacco production at $1.10 per pound excluding land, overhead, management and quota. I lease over 70,000 pounds which I pay for in January at a lease cost plus interest of approximately 50¢ per pound. If I average $1.70 for my entire crop, I will only make 10¢ per pound even though I invest labor, machinery, money, etc., and take all the risks such as drought, hail, disease, etc.

With so little profit, I must produce a large volume to stay in business. Mass production lowers quality which causes us to lose our export market. In 1960, we expoted 60 percent of our crop, in 1980, we exported only 28 percent. If I could grow less acres for more profit, I could produce better quality and we could export more and everybody would benefit.

Based on these facts, I believe the proposal to give the allotment to the grower makes sense.

Sincerely,

WILLIAM DENTON.

ROXBORO, N.C., *February 19, 1982.*

Hon. SENATOR JESSIE HELMS,
Washington, D.C.

DEAR SENATOR HELMS: I attended your hearing on the tobacco program held in Raleigh, N.C. on February 12th. I agree with most of the recommendations made by Farm Bureau, Grange, and other organizations. However some of the individual farmers made some wild recommendations regarding the redistributions of acreage allotments and marketing quotas and the lease and transfer of poundage quotas. They are complaining about the cost of leased poundage. The cost is actually set by the leases. The demand is greater than the supply, therefore they are bidding against one another, thereby raising the price up so high it is impossible to realize a profit. No one can blame the lessor for accepting the highest offer.

The outright sale of allotments and quotas within the county would be satisfactory if it is done with certain restrictions. Only a bona-fide producer should be allowed to purchase it and the amount purchased should be restricted.

I also agree with the recommendation that the farmers operate the Flue-cured Tobacco Stabilization Cooperation on a no-cost to the taxpayers basis. However care should be taken to be sure that guide lines and restrictions are established to prevent the cooperation from taking the advantage of the farmers. I barely can remember the old Tri-State Co-op which was established in the early 1920's which turned out to be a fraud.

One thing that worries me as much as anything else is the decline in the quality of our Flue-cured tobacco. If the quality is not improved, we will lose our export market. A big factor contributing to the decline in quality seems to be the increase in the size of the operations. I am employed by a tobacco warehouse during the marketing season and it is my observation that the larger producer consistently delivers lower quality tobacco for sale than the smaller producer. However I don't suppose there is any satisfactory way to reduce the size of operations.

I am a tobacco farm owner and operator in Person County and a retired A.S.C.S. County Executive Director with 30 years of service. I also served 10 years as an A.S.C. county and community committeeman.

Very truly yours,

CLEO A. DUNKLEY.

THOMASVILLE, N.C., *January 6, 1982.*

Senator JESSE HELMS,
Senate Building,
Washington, D.C.

DEAR SENATOR HELMS: The letter is for the serious tobacco farmer of North Carolina, who love the crop, raising the crop fifteen to thirty years. Seen changes over the years that is killing them slowly. One most common is leasing pounds from people who do not raise the crop but have the pound allotment. My family has raised tobacco for two generations but unless the law changes, there will not be a third generation. My family I am referring to is my in-laws. I was raised in the city and not aware of how the farmer makes his living. Most of them lack the proper education to speak up for themselves and just except facts and go broke. Our family has about 4,000 pounds of tobacco to sell in their names. It equals to about 2 acres. In order to make a good crop and get full use of their equipment, they lease from 5,000 to 10,000 pounds of tobacco from other individuals. They raise all the crop on their land. Last year they paid $0.20 per pound to about $0.25 per pound. This year the folk that lease want from $0.25 pound to ¼ of your crop. I know this probably sounds reasonable to some folks but this is what is between the lines. These folks do not have a worry, they have no time involved, no equipment, some of them do not use their land, just a good little pile of money for no work at the end of the season. It is not fair to the farmer who works that land, prays for the right amount of rain, no hail or heavy rain and long hard hours of labor for the crop. The young farmer wh would like to raise the crop is forced to pay a price so high that he can't come out.

Let me give you an example, a business man in our community has 8,000 pounds. He leases the pounds, his land is all in pasture with cattle on it, or his two sons have a home on it. I feel that if the person does not raise the crop himself, on his land, then he should not have a tobacco allotment. This is an insult the word TOBACCO FARMER. One of the problems also is the news media tells that tobacco is bringing $1.95 per pound. But the news does not tell that the farmer after expenses, is only making about $0.75 per pound. But the lease comes out whether the tobacco farmer makes any money or not. The fly-by-night farmers is buying up the leases at any price and there is no way he can make a quality crop with high leases such as this. The news media is as hard on the farmer as blue mold is.

Can't you help these farmers? I realize that a lot of old folks depend on the lease as income but must the farmer carry it on his back. I really don't have a solution to the problem, but surely there is way to change the law. If you don't raise the crop yourself, in your name, your labor, when you lose it. Most of the folks who have a crop lease are well to do anyway with the land they own.

My folks asked me to write a letter for them to Steve Neill. But I feel that you have more pull for the farmer. They will probably choke when I tell them that I wrote to you since we are all democrats with a capital D. But I have watched you the last few years and painfully admired your work. Please prove to these farmers that you are for them. Come out to our farm anytime and get a good idea of my complaint.

DAPHINE ENSLEY.

MADISON, N.C., *February 5, 1982.*

SENATOR JESSE HELMS: In keeping with President Reagan's policy of federal cutbacks it is understandable that the tobacco program be revised along with other programs.

One of the major issues causing conflicts in the program is allotments held by non-growers. Price and demand will always play a significant role in the price of allotments but it has gotten out of hand. There are some farmers who lease from several allotment holders to increase their acreage to 65 to as much as 200 acres. These large farmers evidently do not realize they are putting undue stress on themselves, as well as other tobacco farmers and the entire tobacco program. By planting this large acreage, these farmers are driving allotment prices to unrealistic levels by creating fierce competition along with cutting profit levels to as little as 200–500 dollars per acre. The rent cost alone for these acres runs as high as 1200 dollars based on 2000 pound/acre. It would seem more financially sound to reduce acreage thereby lowering demand which will lower lease prices. For example, the large farmer could cut his acreage by half thereby reducing demand enough to cut leasing cost by as much as 50 percent. This would increase profit as much of 600 dollars per acre, not including the lesser production cost and labor cost. Also, more time could be returned to management of existing crop which will in turn improve the quality and lower the stabilization receipts. Some of these farmers also acquire loans from Farmers Home Administration (because these loans are very hard to get at a commercial loan institution and they can avoid the higher interest) and using the money to bid allotment prices up. These farmers are just as responsible for high allotment prices as the non-growing allotment holder who gouges for every penny.

After looking over the resolution put forth by the North Carolina Tobacco Growers Association and North Carolina Farm Bureau, all with the exception of one can be dealt with, with a reasonable amount of redirection in farm management. The resolution backed by the North Carolina Farm Bureau to return the allotments to the original farm every third year is a Trojan Horse. Who will grow this tobacco? The same people who grow it now only with the burdensome complications. One example, in many areas farmers are plagued with rent because several years back a farm allotment was based on the amounts grown on that farm in a time where most mechanization and production cost were low, thereby those farms had small allotments. Now for one farmer to raise 15 to 25 acres he will find it necessary to spread his time between 5 to 10 farms, eliminating the quality control achieved by unification, also dissatisfied landlords, wasted time and money transporting from farm to farm, competition for rents will be just as fierce as leasing only worse in the heavier populated areas, the list goes on. Many farmers have invested large sums localizing their operations, this resolution will needlessly dismantle what hard work has built under the present lease-transfer program. What is trying to be achieved is to eliminate undeserving allotment holders. This can be done just as effectively by requiring allotment holders to maintain tillable land sufficient to grow the allotment as recommended by the North Carolina Tobacco Growers Association.

The third year resolution has not been thought through and is very disappointing coming from an organization that is claimed to be farm oriented. Please consider the consequences of this resolution and understand the undue complications it would bring to us all.

The family farm is directly responsible for the reputation of quality envied by foreign producers. This reputation must be maintained to insure the survival of the tobacco industry and also to eliminate large stocks of undesirable tobacco under government loan. The percentage of quality yield is sacrificed as some farmers try to expand their operation to achieve an excessive finnacial independence, as possibly evident by reduction of quality over the past few years. Let us not over tune a basically sound tobacco program, and allow a few people to turn the tobacco industry into big business, thereby pushing out the small farmers who have made our tobacco industry what it is today.

As a small family farming operation consisting of 26 acres of tobacco, a cattle herd, and some small grain for feed, we would appreciate serious consideration of these resolutions. We are trying to make an honest living on the farm and would like to continue to do so.

Sincerely,

JOSEPH W. FREEMAN, SR. AND SONS.

PELHAM, N.C., *February 17, 1982.*

SENATOR JESSE HELMS,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SIR: Enclosed you will find some recommendations regarding the Tobacco Control.

I should appreciate your consideration of this material concerning the control of tobacco acreage and Stabilization.

Yours truly,

THOMAS D. FITZGERALD.

Enclosures—(3).

TESTIMONY OF THOMAS D. FITZGERALD REGARDING TOBACCO PRODUCTION

My name is Thomas D. Fitzgerald. I am a Tobacco Farmer of the Old Belt in Ruffin Township of Rockingham County, North Carolina. Our farm No. 1541 is strictly a Family Operation.

This farm has been in the Fitzgerald Family for over a hundred years. Tobacco has always been the main crop. When the Stabilization Program started in 1935, this farm had a record of 35 acres of tobacco.

The policy of the Stabilization Program to cut tobacco pounds continually from producing farms has reduced the acreage on this farm to a base of 7.31 acres with 11,711 pounds of quota. However, this year it has been reduced to 5.32 acres with 8,518 pounds of quota.

Since tobacco is the main crop and is, in fact, the only crop that can be produced profitably in this area, there is no way that 5.32 acres of tobacco will meet obligations and show a return for income.

I have been leasing poundage through Stabilization in order to plant about 30 acres. At the present time, however, most of the poundage has moved into non-producers hands and they are charging 50¢ to 75¢ or more per pound.

The policy of poundage control with the high rental price prohibits the farmer from producing tobacco. When the farmer produces tobacco under the poundage control system, he is forced into liquidation.

I should like to request, at this time, that the original base of tobacco acreage for this farm No. 1541 be reinstated.

REORGANIZATION OF STABILIZATION ON TOBACCO CONTROL

1. A Stabilization Board should be elected of at least 15 and not more than 20 farmers by producers only. This board should be subject to re-election every 2 years.
2. The Board should have the right to hire and fire all employees and should have control of all salaries.
3. Any and all Stabilization Tobacco should be owned and controlled by the producer until it is sold from Stabilization.
4. All tobacco sold by Stabilization should be sold at 10 percent above all cost and should be marketed on any market, foreign or domestic.
5. Leaf dealers or any tobacco companies should not have any say on the arrangements or control of Stabilization Tobacco.
6. A 1¢ or 2¢ charge per pound should be levied at the warehouse sale. This money should be used by the producers to own and operate Stabiliaztion.
7. Each Tobacco Belt should have its own re-drying and storage plant as needed. These facilities should be owned by the Stabilization Board.
8. The Auction System should be more competitive. The Grading System should be reduced to fewer grades with a better support price per grade. The present Grading System contains too many variations within the same grade.
9. Primings have an historic tradition in the manufacture of cigarettes and should be allowed support at auction.

TOBACCO CONTROL BASED ON ACREAGE ALLOTMENT

1. Tobacco allotment should be based on acreage control only.
2. Family farm to have at least 20 acres or enough acreage allotment to meet all obligations and have a fair and decent income.
3. A maximum of not more than 50 to 60 acres to be allowed for any allotment.
4. If tobacco is not the main cash crop on a farm, the farmer should not have a vote as a producer in any referendum.

5. Non-producers (farms that do not produce tobacco) should have no allotment.
6. A farmer should have the right to submit application to correct errors on his allotment or to make adjustments.
7. A new grower should have the right to submit an application for allotment.
8. Tobacco allotment should be with the producer and not "run with the land."
9. Lease and transfer of tobacco poundage is a burden and hardship on the tobacco producer and should not be allowed.

ANGIER, N.C., *March 4, 1982.*

Hon. JESSE HELMS,
Raleigh, N.C.

DEAR SENATOR HELMS: Recently I have been very disturbed by the talk about tobacco allotments at the hearings held in Eastern North Carolina.

As a widow, whose only income other than social security is a small tobacco allotment from a farm which I own, I am very concerned.

There is no way I can farm the land myself, but still I do not feel the allotment should be taken from me and given to someone else. This seems to be against the principles of the freedom and rights of our country.

I appreciate your work in representating North Carolina's interests in tobacco and hope you will consider this letter in the constructive way it is offered.

Yours truly,

MARY C. GILLIAM.

CHATHAM, VA., *February 17, 1982.*

Mr. JOHN BLOCK,
Secretary of Agriculture, Agricultural Department,
Washington, D.C.

DEAR MR. BLOCK: We are writing to you because of our so-called tobacco program. We want to tell you what small tobacco farmers, like ourselves, are up against. We have a two-hundred acre farm. Our daddy bought this farm in 1939, and we moved on the farm in 1940. We have helped pay for the farm twice. Our daddy died in 1967, and we bought his farm from the estate. We have been living on this farm for 42 years, and we have managed to make a living.

Our main income is tobacco, although we raise some grains. This tobacco program has gotten completely out of hand. Our base poundage now is 8,000 pounds. We have been leasing enough to give us about 42,000 pounds the past several years. Our main concern is that the leasing prices range from 55 to 62 cents a pound. We cannot pay these ridiculous prices and make a living.

We also drive school buses for a little extra income. We each have a son and a daughter who help us farm. Both of our wives also help us in the crop. We pay them for their work, and we also hire other laborers. We cannot afford paying today's leasing prices and paying hired help, farm expenses, etc. If something is not done, we have only one alternative—sell our farm.

We urge you to make some drastic changes in the tobacco program. Please do not allow the poundage to be sold from one farm to another because the big money men will wind up with the poundage. We want something done to help the small farmers—the farmers that built this country. The country was built by the small farmers, not by the big farmers. The program was designed to help the producers of tobacco. The way it is today, the non-farmers, the ones that are leasing out the tobacco, are benefiting the most from the tobacco program.

We recommend making the farmers who own a quota either raise the tobacco themselves or take the acreage away from them. Better yet, take the acreage and divide it with the small farmers that are fighting so hard to survive. If nothing else, do away with the complete program and let us all start over again.

You must do something to help the small tobacco farmers, like ourselves, that have been farming all their lives. If you will send us a representative into this area, we will prove to him or her what we are talking about. Please, something must be done. The sooner the better!

Very truly yours,

JAMES P. GREGORY.
ALLEN E. GREGORY.

SIMS, N.C., *March 4, 1982.*

Hon. JESSE HELMS,
Raleigh, N.C.

DEAR SENATOR HELMS: I have followed very closely and appreciated very much your support for our tobacco program in Congress. I would like, if I may, to express to you some of my and my families personal thoughts and concerns relatively to our tobacco program.

I have followed closely the newspaper reports of the various hearings held around Eastern North Carolina on the tobacco program. Some of the comments reportedly made at these hearings concern me a great deal with regards to who should hold a tobacco allotment. If you would permit me to use a personal example of my own family, I might be able to point out some of these concerns.

My father and mother have owned a tobacco farm in Johnston County for 30 years. My mother recently inherited from my grandfather another farm in Johnston County and a small farm in Wilson County. They also have tobacco allotments. My mother and father recently purchased one-half of my great grandmother's farm in Wilson County which had been in our family over 100 years which also holds a tobacco allotment. They, of course, paid top dollar for this land with the tobacco allotment being a considerable amount of the value of the farm. I recently purchased from my uncle a small farm in Johnston County that also holds a tobacco allotment that he inherited at the time my grandfather died. These lands in Johnston County that were part of my grandfather's estate have been in our family since the 1930's and I guess the beginning of the tobacco program. The land that I purchased from my uncle I had to pay top dollar plus for of course partly because the farm held a tobacco allotment.

Now to get to the point, my father and I neither farm full time for a living. He has been a farm equipment dealer for years and now is semi-retired and I have farmed part time tending grain. We have been leasing the tobacco poundage to other full time farmers at what we consider to be a fair and equitable price. Although we could have gotten someone to tend the tobacco on our land on halves, we were only following the rules that had been set by the federal government with regards to the tobacco allotment lease and transfer system.

How can someone in the furtherest reaches of their mind feel that these tobacco pounds, which regardless of whether some like it or not have developed into a property right over the years, now should be taken from us and given to some other group just because they happen to be farming full time. To me this goes against the very principles of our country's freedoms and property rights. I certainly hope that the taking of allotments held by one group of people and giving to another group by some arbitrary means is not under serious consideration by you or other members of our Congress.

It certainly appears that one of the strengths of the present allotment system in this state is the wide disbursement among diverse citizens, many of whom hold small allotments. Will the program enjoy as much support as it does now if allotments are assigned only to the large individual farmers who will be small in number? Many people now are associated with tobacco by owning farms whether through inheritance or purchase and all these diverse people support the program. There are many remedies available to high lease or rent prices other than eroding this program support base. I don't believe our full time farmers, many of which are my good friends, can have it both ways—someone give them a tobacco allotment and then support the price of tobacco at very high levels. What if the amount of quota was increased by some percentage and the support levels held the same or lowered on some grades—then certainly the demand for poundage would be less and lease prices would fall. This would also benefit the export market.

My father and I and our family support the North Carolina Farm Bureau's position on changes that should be made to the present program. If something further must be done in addition to the Farm Bureau's position, it could be made a requirement that the tobacco allotment will be planted on each individual farm that it is a part of every year and that any change in a farm as far as land use from for instance, farming to housing, a school, a power plant, or some other type of use the tobacco allotment would then be turned in and redistributed among the other holders. In our opinion, the tobacco allotment should be associated with farms and not individuals and as long as the land is used as a farm the allotment should remain as a part of that property right. Possibly the sale of allotments should only be used to allow those without the necessary farmland to constitute a farm to dispose of their allotments as a one time operation.

We appreciate very much your very able and hard work in representating North Carolina's great interest in tobacco before our Congress. I hope you will consider this letter in the constructive way it is offered and the concerns that we have expressed in your deliberations as to changes in our tobacco program.

Yours truly,

W. D. JOHNSON.

TOM J. KEITH & ASSOCIATES, INC.,
REAL ESTATE APPRAISERS & CONSULTANTS,
Fayetteville, N.C., February 5, 1982.

Hon. JESSE HELMS,
Federal Building,
Raleigh, N.C.

DEAR SENATOR HELMS: I read the recent article in the Fayetteville Times about the tobacco program hearings at Fairmont, and was quite concerned about the attitude of some of the farmers renting tobacco allotments. I think if they knew how the farm land investor subsidized their business, they would not be so outspoken about these matters.

I have appraised a number of farms in southeastern North Carolina, and find that the average rate of return to the farm land owner cash renting a farm is about 4 percent. I understand that the national average is about 2 percent. In today's economy with investments returning 12 percent to 18 percent, I can hardly see where the investor or speculator is getting rich with 4 percent on his money. Most investors buying farm land expect values to increase or rentals to increase, and maybe at the end of 10 years, rents will be up to the point that they will be getting about 10 percent return on their costs and not the market value at the end of 10 years. This hardly seems like a prudent investment for an investor.

Many investors buy farmland because they like the "pride of ownership" and having something they can possibly retire on. At the 4 percent rate of return I see the investors getting, the farmer is capitalizing on the difference between the 4 percent and the rate of return an invstor could expect to get on Money Market Certificates, Certicficates of Deposits, Treasury Bills, which are returning 13 percent to 17 percent at the present time. Under this condition, it appears as though the farmer is being subsidized by the investors to the tune of 11 to 13 percent, which means that the farmer would have to pay 175 to 225 percent more in farm rents than he is presently paying if the investors demanded a fair market return for their farmland and the investor did not get some return from the "pride of ownership".

My brother, sister and I, purchased a farm last year and I can speak from experience about the rate of return on the farm investment, plus the thousands of farm sales I have studied in Southeastern North Carolina over the past 13 years I have been in the appraisal business.

I think we are all in favor of a quota system and would not mind bearing the cost of such a system; however, if you expect to get doctors, lawyers and investors, to buy farmland for some future return on the investment and expect for these people to help subsidize the farmers and food prices in this country, some incentive needs to be included in the purchase of this type land.

Based on some 5,000 farm sales I have studied during the past 13 years, about 90 percent of the purchasers of farmland involved an existing farmer who was adding to his land holdings in order to increase his efficiency by using his existing machinery and management to justify the purchase. These farmers could realize a rate of return of 10 to 15 percent, whereas the non-farm investor expecting to cash rent his land at say $50/acre can only realize about a 4 percent return on the investment. Many non-farming investors are helping to subsidize those that are in the farming business.

Sincerely,

THOMAS J. KEITH, MAL.

VERSAILLES, IND., *January 18, 1982.*

Hon. JESSE A. HELMS,
Chairman, Agriculture, Nutrition and Forestry, U.S. Senate,
Washington, D.C.

DEAR SIR: I am a Ripley County, Indiana farmer farming 400 acres in general farming, with a tobacco allotment of 1100 pounds, with the government restriction of leasing 15,000 pounds on other farms that are owned by persons not interested in growing tobacco.

In my opinion, it would be much more economical and energy saving to do away with said restriction and allow a farmer who desires to produce tobacco, raise the entire poundage on his own farm. The cost of leasing tobacco acreage from others penalizes a farmer wishing to raise the product, while the tobacco-base landowner takes none of the risk, does none of the labor, pays none of the expenses, but actually makes more on the crop than the grower makes.

I would like consideration given to lifting the regulations on growing tobacco so that a more equitable return can be realized by the grower.

Very truly yours,

JOHN M. LABOLT.

FEBRUARY 16, 1982.

DEAR SENATOR HELMS: I first want to join the every growing list of persons commending you and your constituents on the tremendous effort all of you have put into the savings and now the changing of the tobacco program. With your leadership and the efforts of those farm oriented people who support you and understand what has to be done to save our tobacco program we will win our fight for the program.

I have talked and listened to many farmers in my county (Edgecombe) and from all over the state and have come up with some suggestions that I would like to share with you. I attended the hearing in Raleigh and did not hear these particular ideas expressed.

(1) (If) Congress could set the rental rate for tobacco pounds at a percentage of the county average per pound for the year. (Example: 1981 average $1.62; 1982 rental rate .41¢). All farmers who wanted to lease tobacco pounds off their farms would then inform their county A.S.C.S. office to that extent. All farmers who wanted to lease tobacco pounds onto their farms would then turn the farm number into the county A.S.C.S. for the purpose of lease and transfer. The tobacco pounds would be assigned to each farm on a percentage basis. Farmers who do not own farms could still lease farms with allotments and use those farms to gain more tobacco through lease and transfer.

Using this form of lease and transfer would eliminate problems we are facing today. Allotment holders could not break agreements made early in the year because of someone else offering a higher price. Tobacco farmers would know early what the rental price would be for the coming year. The price of rental tobacco would be held in line helping the farmer and the allotment holder. This would help the allotment holder by letting him keep his allotment and the farmer by having a fair rental price that he can work with. I truly believe that the present lease and transfer program has and will continue to hurt the tobacco program. I also realize that a lot of farmers need lease and transfer because of large investments in growing more than their quotas or in renting all their tobacco. I respectfully ask that your committee in the Senate consider this proposal.

(2) All agricultural land, entire farm, that is sold for a non-agricultural purpose would lose all allotments assigned to them. These allotments would then be lost forever. If a portion of a farm is sold for non-agricultural purpose then A.S.C.S. regulations should be used to see if that farm would lose any part of the allotments assigned to it. (Example: A farm with twenty acres of crop land and an allotment of ten acres of tobacco; five acres of cropland are sold then the allotment would be reduced to seven and a half acres of allotment.)

I have heard the talk about non-agricultural corporations owning tobacco allotments and whether to take these allotments or allow such corporation to sell allotments. There has to my knowledge been no talk of keeping this situation from ever happening again. I realize that this situation only represents about two and a half percent of the allotments, but it should have never happened. These corporations are not in the farming business and I feel sure they do not really want these allotments.

At this time I would like to say that I agree with the sentiment that the tobacco allotments belong in the hands of the producers. But, I feel that with the situation as it is, it will take a long time to make this change. One way this change could occur would be at the death of an allotment holder, the allotment would return to a county pool to be redistributed to tobacco growers. There could be one exception, if the heir of the allotment holder is a tobacco grower and inherits the land then the allotment would remain with the land.

Again I thank you for your efforts for the tobacco program. I look forward to hearing from you soon.

Respectfully yours,

Ben S. Lovelace, Jr.

Broadway, N.C., *February 15, 1982.*

Mr. John Block,
Secretary of Agriculture,
Washington, D.C.

Dear Mr. Block: As a taxpayer, voter and tobacco farmer, we have encountered a serious problem in the Tobacco Program.

The way I see it is: If a person or company has an allotment with no land on which to plant the tobacco, he/she should be stripped of the tobacco allotment. Example—Carolina Power & Light Co.

Another situation is: If a person has an allotment, it should be planted on the farm for which the allotment was issued. This would reduce the renting and moving of allotments. Therefore, the farmers would not mind being charged the price of Stabilization.

Still another problem is the F.H.A. Loan with it's cheap interest rate which is causing the rise in rent of tobacco per pound. This loan should not be used for rent of a farm crop unless each and every farmer is treated equal.

I hope you understand my views on the terrible situations the tobacco programs are in and will use any pull/power that you may have or acquire to remedy or alleviate the problems that have arisen.

I remain,

Yours sincerely,

Lewis E. McNeill.

Apex, N.C., *March 6, 1982.*

Senator Jessie Helms,
Senate Office Building,
Washington, D.C.

Dear Sir: Being a tobacco grower, I have a definite interest in the tobacco program of today and the changes that are inevitable for a working tobacco program in the future.

I was raised on a tobacco farm and have been a flue-cured tobacco grower on my own since 1967. I own no allotment quota and have rented from the non-growers all these years. I tend an average of 10 acres of tobacco. My entire income is from tobacco. I am the one that assumes all loans, provides all equipment, takes all the risk of growing a crop of tobacco but, I still have no claim on any allotment quota.

The average allotment holder is no longer a true tobacco grower, yet, he holds the allotment quota. The quota holders base their rent for the coming year on the established support price. Usually this means that I pay even higher rent for the tobacco pounds. Year after year I have no guarantee that I will have the allotment quota that it takes for my size of production operation. I have to depend on the non-grower for my tobacco allotment quota and I have to pay money for the tobacco pounds at whatever price he sets.

From the meetings I have attended I understand that the allotment quota is tied to the land on which it was established. The allotment holders claim that they have farmed for years to keep their allotment. This is basically untrue. They have farmed for years but, it was to pay for the farm not the allotment quota. The allotment quota was established on the land at no added cost to the land owner. The non-growers have had the privilege of leasing their allotment quota each year for the past 15 years or more. The non-growers do not own the allotment quota any more than I own it.

I would also like to own a farm but, with the prices of tobacco pounds that are for rent, the prices of equipment, the increasing cost of production and the fluctuating high interest rates, it is virtually impossible.

I stand to inherit land and the tobacco allotment quota that is tied to this land at the death of my parents. I will gladly relinquish my inheritance of the tobacco allotment quota on this land, if some kind of changes in the tobacco program can put the allotment quota back in the hands of the flue-cured tobacco growers.

There must be a program in the near future that helps the active tobacco growers of today and all future tobacco growers. This program must never tie the allotment quota to the land again. The flue-cured tobacco grower has to be the one that controls the allotment quota.

Sincerely,

HUNTER H. MORRIS.

FAYETTEVILLE, N.C., *March 10, 1982.*

Hon. JESSE HELMS,
U.S. Senate, Dirksen Building, Washington, D.C.

DEAR SENATOR HELMS: I am attaching an article from the Raleigh News & Observer dated March 6. 1982 written by Mr. Bart Strickland of Middlesex, N.C. I agree with Mr. Strickland on his suggestion. It sounds very fair to me. Of course I am vitally interested in the tobacco allotment. I am a 73 year old widow with a small farm and small allotment. I lease my tobacco allotment and it is very necessary to me to have this income to supplement my social security. I also have a 69 year old brother who has farmed all his life, but now he is not physically able to do a lot of heavy farming and is now leasing his tobacco allotment.

It would be a very real hardship if we were to lose our tobacco allotment and even more of a disaster to lose the entire farm program.

I realize that something has to be worked out concerning the cost to the Government for these programs. That is a tremendous problem and one that I am not capable of addressing the first suggestion.

Thank you very much for all you have done and for your continued work for the farm program.

Sincerely,

MRS. REBECCA H. PATTISHALL.

TOBACCO GROWER PROPOSES REVISIONS

Since I am a bona fide tobacco grower dating back to 1951 and since 95 percent of my income has been derived from the production and sale of tobacco, I feel qualified to offer suggestions regarding the new approach that must be taken to make our tobacco program self-supporting at no cost to the federal government.

My recommendations are that there shall be no fall leasing of tobacco poundage, that the grower shall sell only 100 percent of his allotted quota, that no grower shall be allowed to plant 110 percent of his acreage in order to comply with the four-leaf program, that growers, warehousemen, allotment holders and buying companies shall share in the operational cost of this new program and that the sale of allotments within the county will be allowed if the owner so desires.

Carolina Power and Light Co. and other non-farming corporations should be encouraged to sell their poundage to genuine tobacco growers. Price supports should be adjusted downward on undesirable downstalk tobacco to a point where it would be unprofitable for the producer to attempt to market this leaf.

Moving the allotted quota back to the original farm every three years would be impractical. This concept would be too expensive for renters because of travel costs. Farmer retirees and widows, who must have their rental fees to supplement their retirement benefits, should be allowed to retain their marketing quotas. Most of the above recommendations could be implemented for the 1982 crop.

The poundage to be sold by CP&L and others should be pooled at the county ASCS office for sale to growers who wish to buy these pounds. The county agricultural committee should be given authority to set a sale price for this tobacco.

BART STRICKLAND.

PINK HILL, N.C., *February 1, 1982.*

Senator JESSE HELMS,
Dirksen Building,
Washington, D.C.

DEAR SENATOR HELMS: I own a farm with a small tobacco allotment. Therefore, I would like to make some comments and suggestions concerning the tobacco program.

1. No Cost Program: I favor making the program a No Cost Program to the government to be paid for by the people leasing the allotment and the allotment holder.

2. Allotment System: I propose the allotment system be left as is. It has served everyone concerned with tobacco very well.

3. Sale of Allotments: Allotments should not be sold to anyone in excess of 50 percent of owned tillable land.

4. Lease and Transfer Price: I favor letting the free market set the price. This way a person can set his own limitations whether he be leasor or leasee.

5. Farm Bureau Proposal—Return Quota to Farm Every Third Year: I do not agree with this proposal made by Farm Bureau. I propose the program go one of two ways. Return the quota to the original farm permanently or have lease and transfer as we had in the past.

6. Proposal Made at Kinston, N.C. Meeting for a type of Incentive Program Allowing Increase in Quota Poundage for Persons Producing Quality Tobacco: I am opposed to the incentive program proposal made at the Kinston meeting which would allow increase in quota poundage for persons producing quality tobacco. Increases or decreases in quota should be made in the same manner as they have in the past.

I hope you will take in consideration the above mentioned proposals and suggestions when making your decisions concerning the tobacco program.

Sincerely,

BOBBY G. QUINN.

PINK HILL, N.C., *February 19, 1982.*

Senator JESSE HELMS,
Dirksen Building,
Washington, D.C.

DEAR SENATOR HELMS: I have attended some of the tobacco meetings and I have talked to a lot of people concerning the tobacco program. I have been involved with tobacco all of my adult life and some as a child and my conclusions are—

1. No-Cost Program: Most of the people that I have talked with favor making the program a No Cost program to the government and dividing the cost between the allotment holder and the person leasing the allotment poundage.

2. Allotment System: The present allotment system has served everyone concerned very well. I propose it be left as is. (No changes.) Exception—Possible sale of allotments.

3. Concerning Sale of Allotments: If this were to be enacted, it should be made available to non-allotment holders as well as present allotment holders. not to exceed 50 percent of owned tillable land. This would take care of the complaint that it is a closed system.

4. Lease and Transfer Price: I can see where there is a need for modernization or leveling out of leasing prices. However, I do not know of anyway to have pre-set price that could not be violated. Therefore, I propose that we let the free market set the price. The way to stop excessive lease prices is for growers to stop bidding excessively high.

5. Farm Bureau Proposal—Return Quota to Farm Every Third Year: I do not agree with the proposal made by Farm Bureau to have the tobacco returned to the farm every third year. As for myself this would be a little inconvenient, but I could live with it. However, I can see where it would be a real hardship to a lot of the large tobacco producers who would have to travel great distances to farm their crop. The large farmers now can lease two or three farms near them and then lease additional tobacco poundage (from small farmers like myself) and move this poundage to the leased farm. This way everyone concerned is benefitting.

6. Proposal Made at Kinston, N.C. Meeting for a Type of Incentive Program Allowing Increase in Quota Poundage for Persons Producing Quality Tobacco: I am opposed to this. It would allow too much of an opportunity for the program to wreck its ownself. (Friends will be friends.) Increases or decreases in quota should be made on a need basis by the industry.

I own a farm with a small tobacco allotment approximately 4.5 acres. I farmed this allotment myself for several years. For the last four years I have leased it off the farm to a friend. The point is, without the income from this tobacco allotment, financially I could not survive on my farm. Other than tobacco, I farm beef cattle, corn and soybeans.

I hope you will take in consideration the above mentioned proposals and suggestions when making your decisions concerning the tobacco program.

Sincerely,

GRAHAM P. QUINN.

TOBACCOVILLE, N.C., *February 24, 1982.*

Mr. JOHN SLEDGE,
President, North Carolina Farm Bureau Federation,
Glenwood Avenue, Raleigh, N.C.

DEAR MR. SLEDGE: I am writing you in regard to the February issue of Farm Bureau News. Specifically AFBF Policies, page 8, under tobacco, last paragraph; quote, "We recommend that an allotment holder, who has insufficient cutlivable acres to permit use of the allotment, release it to the county ASCS office for reallocation to qualified growers within the county."

Normally I find myself in agreement with Farm Bureau policies, however, this time I am strongly opposed to this one and very upset about it. You advocate preserving the family farm, yet in this statement, you said take it away from the little man and give it to the big one. If you really want to be fair, why don't you take it away from the large allotment holders and redistribute it to all farmers so that everyone has an equal share. This way we could afford to raise it and wouldn't have to work off the farm at public work so we can pay our taxes.

The only fair proposal was Senator Helms', permit the small allotment holder to sell his allotment (voluntarily) to the other holders.

If you continue to support this policy, which only benefits the large and rich farmer then you may cancel membership number 262041. I may get knifed in the back but I don't intend to pay someone to do it.

Sincerely,

C. G. STALEY.

P.S.—Robin Hood robbed the rich and gave to the widows and poor. AFBF wants to rob the widows and poor and give to the rich. I propose you publish your position in all the newspapers so everyone knows it.

KENLY, N.C., *February 24, 1982.*

Hon. JESSE HELMS,
U.S. Senate,
Dirksen Building, Washington, D.C.

DEAR SENATOR HELMS: As a young farmer producing tobacco in Johnston and Wilson counties of North Carolina, I appreciate the opportunity to submit ideas regarding the tobacco hearings that have occurred in our great state.

I attended and listened with keen interest to the proposals offered on February 12, 1982, in Raleigh and have followed the other hearings through the media.

My situation is similar to a number of other tobacco growers in North Carolina as well as other producing states. I am a college graduate who has returned to help operate a family farm. I am thirty-eight years of age and have been farming full time since 1976. In 1982, I will operate and manage a number of family farms, all leased. I will grow approximately thirty-five acres of tobacco totaling 75,000 pounds, all of which are leased. My father has retired this year; his farm serves as the base of my operation. The majority of my other tobacco allotments are family related. I believe that I am in a position to offer suggestions regarding the future of the tobacco program. I recall your statement regarding a common-sense approach to the issues and with which I totally concur. From what I have observed, a solution is in sight with some sacrifices made by all concerned parties. However, for the continuing success of the already successful program, compromise must occur, keeping in mind that deliberate attacks on any specific party involved is not an issue.

My suggestions follow:

(1) Fall leasing probably is, and should be, past history beginning in 1982. This is a logical first step, a needed first step, and a beneficial first step! Why? Congress has mandated immediate changes. At this time of year no one is aware of what poundage will be available for fall lease. Let's put an end to any speculation in that regard now. Some producers are reasonably sure they can over-

produce. Should I so choose, I am a shining example. I have enough experience to conclude that with added nitrogen, I can produce over the poundage quota on some of my leased farms. Take that temptation away, and I will carry to the warehouse better quality tobacco to meet foreign markets. I plan to do this anyway. Speculators who are buying poundage now will make a profit this fall from those who over-produce. This naturally drives lease prices upward. You should be well aware by now that lease prices are already ridiculous. I have a copy of Mr. Terry Howes's statement which was read to your committee on February 12, 1982. Mr. Howes is a friend of mine; and while some of his proposals seem a bit extreme, he is totally accurate that allotment-holders in our area are getting $1,000–$1,400 per acre and are assuming no risk. The original tobacco program was never intended for this situation to occur. Mr. Howes also pointed out that allotment-holders in our area who are non-producers total 60 percent. Mr. Rose seemed astonished and somewhat disbelieving. Come to Johnston and Wilson counties and you will believe. My father farmed for 30 years prior to 1982. Last year we had approximately 90,000 pounds of tobacco. His base allotment was approximately 30,000 pounds. This is the rule not the exception in our area which is one of the better tobacco-producing areas of the state.

(2) The lease and transfer and from whom to take allotment, if anyone, is the real thorn when the tobacco situation is discussed. Bear in mind, I own no land and have no allotment. If sales of allotments are legalized, I could not purchase same without family shuffing of property rights to which I may or may not be entitled. I enjoy farming and would like to continue. Sale of allotments is feasible at some point in time although I personally would not benefit and even could be damaged by such sales. In the event these were to occur, I certainly would like to see the "American Desk" in the State Department to help financing. Is it not true that changes over the years were made primarily to benefit the producer, theoretically? In the early years the producer could grow all he could manage. Then federal controls were implemented to limit acreage to keep supply and demand intact for the benefit of the producer. Then came lease and transfer, mechanization, and the decline of the small farm. Since then the snowballing effect has given us our present situation. Although I am not opposed to selling the allotments, I do question the legality of selling a property that was originally issued by the federal government for the benefit of the producer. At some time, allow the allotment-holder the option to sell as long as the producer has acreage available to plant the poundage not to exceed 50 percent of his total cleared acreage. But, let's not do this first. First, return the allotment to the farm every year. If an entity has purchased land with allotment and used that land for a profit-making venture not deemed agricultural and has no place to plant the allotment, then return those pounds to the ASCS office and pool it. Then, determine the percentage that each allotment has on the producing land compared to the total county poundage allotment and issue the pooled tobacco on a percentage basis to the land with allotment and the capability to produce it. This will bring lease prices more in line. This is not directly related to congress's no-cost mandate program but goes hand in hand with the continued success of the whole-program.

(3) We are all in favor of a no-cost program. This appears to be quite possible and, with leadership provided by people like Mr. Fred Bond, this obstacle can be overcome. Assessment per pound at the warehouse is a workable solution. Who is to pay—the leasor or the leasee? Certainly the leasor has a responsibility here. However, if lease prices are brought to a more stable figure, then I, who lease all my poundage, would not object to paying half of the assessment. After all, the program should be designed to help us all and not deliberately take advantage of any segment of the tobacco family. Don't you agree? Presently the leasee seems to be assuming all of the responsibility.

We all may feel we have the best solution to the problems including the Farm Bureau, Grange, and others. My ideas are not the total answer. However, based on what I have observed, what you yourself have said, and the intent of those hearings, as well as what congress has mandated, my suggestions are as workable as any. Congressman Rose will receive a copy of this letter. Should either you or Mr. Rose require more data at the local level, I will be glad to assist. I appreciate the opportunity to be heard on such a sensitive issue and join all others in congratulating you, Mr. Rose, and others for the work you have done. To me this typifies the true democratic process that will continue moving this nation forward.

Sincerely yours,

P. Gerald Starling.

MIDDLESEX, N.C., *February 24, 1982.*

Attention Senator Jesse Helms.

DEAR SENATOR: Since I am a bonifide tobacco grower dating back to 1951 and since 95 percent of my entire family income has been derived from the production and sale of tobacco, I feel somewhat qualified to offer suggestions regarding the new approach which must be taken to make our tobacco program self-supporting with no cost to the federal government.

My recommendations are these: there shall be no fall leasing of tobacco poundage; the grower shall sell only 100 percent of his alloted quota; no grower shall be allowed to plant 110 percent of his acreage in order to comply with the four leaf program; All allotment holders, warehousemen, buying companies and growers shall share in the operational cost of this new program; allow sales of allotments within the county if the owner desires; encourage CP&L and other nonfarming corporations, etcetera to relinquish their tobacco poundage or sell outright to bonifide growers; adjust price support downward on undesirable down stalk tobacco to a point where it would be extremely unprofitable for the grower to attempt to market this tobacco.

I feel that moving the tobacco quota back to the original farm every three years would be impractical, this concept would be too expensive for leasee to move back and forth to tend allotment; finally, it is my opinion that farmer retirees and widows who must have their rental fees to supplement their retirement benefits (social security) should be allowed to retain their tobacco poundage quota. The first three suggestions should be effected for 1982 crop.

Respectfully,

BART STRICKLAND.

P.S.—The poundage to be sold by CP&L and others should be pooled at the county ASCS office for sale to growers who wish to buy these pounds. The County Agricultural Committeemen would be given authority to set price for this tobacco—no auction sale.

WALLACE, N.C., *February 19, 1982.*

Senator JESSIE HELMS,
Representative CHARLIE WHITLEY,
Representative CHARLES ROSE,
Washington, D.C.

SIRS: I would like to share with you my thoughts on the tobacco program. It would also be very appreciative to me if you would be so kind as to answer my letter.

My concern with the program is not so much about government controls and support prices as is the report I read in the papers about some farmers wanting to take acreage and poundage away from those who wish to lease the poundage rather than to grow the tobacco.

In the last several years through the purchase of farms as well as through inheritance my wife and I have acquired some tobacco acreage. In purchasing my farm with tobacco allotment or through inheritance you pay for it one way or another. I am not interested in being forced to sell my acreage or have it taken away because I prefer to lease rather than to grow the tobacco.

If I may, let us look at it in a different light. Let us say through inheritance and acquisition in the last five years my wife and I acquired, in an adjoining county, five acres with two houses and ten acres with three houses. I decided that I wanted to lease these houses, so I let a realtor handle it for me. I chose to lease and stay out of the picture by having an agent look after it for me for a fee. Because I made the decision to lease am I to assume that the other property owners with houses to rent will eventually demand and take these assets away from me? Let us hope not. Let us hope that no special interest groups will ever take advantage of us by slipping in the back door.

My major interest is to keep what is mine and the other farmers to do the same. What is eventually worked out about government price support and the rest of the program I think we all can live with. I am looking forward to your reply.

Yours truly,

JAMES F. TEACHEY.

HURDLE MILLS, N.C.

Attention Jesse Helms.

I am Wayne Moore from Hurdle Mills, N.C. I have been on the farm for sixty years and have been to 32 State and National Farm Bureau Conventions. I am just a little one horse tobacco Farmer and haven't failed to make a little money every year. I have one son and one daughter. My son has been with me all of his life. He has never done anything but farm and he enjoys it. He is 39 years old now.

I told Mr. Mangum when this poundage came about it was going to hurt our tobacco program. The ASCS office knows what every farm produces. I would like to see the poundage done away with and be strictly on acres. A lot of younger boys farming are going around buying up pounds for 50 and 55 cents per pound. They cannot make any money on it and growing 50 to 100 acres they cannot raise quality tobacco, because you cannot look after that much tobacco. The companies do not like Mexican tobacco.

WAYNE K. MOORE.

STATEMENT OF ALVIN H. BARRETT, REIDSVILLE, N.C., REGARDING THE TOBACCO PROGRAM

I have experienced a problem in 1981 that doesn't happen very often—but it does hurt when it happens and it is a part of the program. I think it should be considered.

In 1981, I leased a farm with 44,000 pounds of tobacco allotment. I leased additional pounds on to this farm for a total of approximately 62,000 pounds or a total of 38 acres of tobacco. I planted 90 percent of my quota which was 33 acres. I produced 100,000 pounds—38,000 pounds over productivity. This 38,000 pounds could not be sold in 1981 because of over production.

I had to lease the same farm in 1982 (at a very costly price) in order to use the farm number to sell 1981 tobacco. By not marketing this 38,000 pounds, I was $18,500 short. Suppose in 1982, this farm owner had leased his farm to another tenant—under the present program. I would have had to destroy these 38,000 pounds. This would have caused another problem—I would have had to sell farm equipment to pay my debts.

I think the producer should be permitted to sell this excess tobacco the following year on this farm number without any inconvenience to the farmer, or without the land owner's consent—providing the producer leases the extra pounds.

Another problem in the same category, suppose I lease this farm in the same manner paying .50¢ a pound plus .15¢ for Barn and land—approximately $33,000 and had a hailstorm totaling the tobacco allotment. Under the present program, these pounds would go back to this farm the following year, thus doubling the landowner's quota.

Since there are two parties involved, the landowner and the leaser, in my opinion, the landowner does not deserve these pounds.

I think the pounds should be pooled at the ASCS office and leased the following year with or without the landowner's consent and the money returned to the leaser, unless he owns a farm to transfer these pounds to.

I am deeply concerned,

LUMBERTON, N.C., *February 4, 1982.*

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Senate Office Building,
Washington, D.C.

SIR: I recommend that tobacco allotments be permissively sold as property in the counties in which they exist.

These allotments should be sold from one tobacco farmer to another tobacco farmer without the use of brokers of any kind.

These allotments should be held on the buying farm for a period of 5 years before they could be reso'd. in order to take speculation out of the transaction.

I believe this action would clear up much of the bad publicity and unsavory things that go on in the lease-transfer program as it exists.

Very truly yours,

JULIUS T. SINGLETARY.

LUMBERTON, N.C., *January 30, 1982.*

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Senate Office Building,
Washington, D.C.

SIR: I would like to propose to the people who make the rules concerning lease and transfer tobacco that no tobacco warehouseman, as a warehouseman, be allowed to participate in anyway with the leasing or transfer tobacco. All warehouseman who are farmers may lease, as farmers, as much tobacco as they can transfer to their farms they own or operate.

I would like for the rules to prohibit warehouseman from causing leased tobacco to be assigned to the warehouse because a warehouseman brokered the tobacco from one grower to another.

Very truly yours,

JULIUS T. SINGLETARY.

NORTH CAROLINA STATE ASC COMMITTEE RECOMMENDATIONS 1982 FLUE-CURED TOBACCO PROGRAM

A. CHANGES APPLICABLE TO REGULATIONS

1. Problem: Approximately 9,285 acres of Maryland type tobacco were grown in North Carolina in 1981.

Recommendation: Consider any tobacco grown in a quota area to be quota tobacco.

2. Problem: Subsection 1464.7 (a) (2) under four-leaf program provides that if an agreement is filed to leave or remove the four lower leaves on the stalk, 110 percent of the farm acreage allotment can be planted and the farm would qualify for price support.

Recommendation: Discontinue four-leaf program since many producers are voluntarily leaving the four lower leaves while only planting farm acreage allotment. Eliminate cost for administering the program as well as reduce the production of tobacco allowed on the additional 10 percent acreage allowed under the four-leaf program.

3. Problem: Subsection 725.114 (d). Under the DDT, TDE, Toxaphene or Endrin Certification Provisions, two samples per warehouse are required to be taken and sent to Laboratory for chemical analysis.

Recommendation: Discontinue producer certification, and eliminate sampling provisions. DDT sales have been banned. The laboratory cost for chemical analysis is approximately $36.00 per sample. This would result in considerable savings to the Government: specifically, the cost of the analysis, plus postage costs and other administrative expenses.

4. Problem: Subsection 725.98 (n) provides for correction of farm production records where actual marketings are determined to be incorrect because of a violation. In many cases, this actually gives an increase to the producer who violates.

ACTUAL CASE COMPUTATION

[This producer was responsible for violation]

	Amount	
1979 lb in violation	6,968	
1979 effective quota	14,774	
Percent reduction	47.2	
	Acres	Pounds
1980 basic allotment and quota	2.18	3,471
Less reduction for violation	1.03	1,640
Subtotal	1.25	1,831
Plus 1979 undermarketings not previously considered	4.38	6,968
Revised 1980 allotment and quota	5.53	8,799

Not only is the violator rewarded by the correction which increases his quota, but this additional quota increases the supply, which in the long run hurts the other farmers when the supply and demand situation results in a national allotment and quota decrease.

Recommendation: Change regulations to eliminate correction for undermarketings not previously considered due to violation of cards being used to falsely identify tobacco.

5. Problem: Subsection 725.98(g) provides that the amount of allotment reduction for violation is the percentage that the pounds in violation are of the effective farm quota. (See above example: pounds in violation were 6,968 pounds, but allotment and quota only reduced 1,640 pounds and 1.03 acres.)

Recommendation: The allotment and quota reduction be the same as the pounds in violation.

6. Problem: Under subsection 725.98(n), farm data records are corrected in cases of "Failure to account for disposition of tobacco." Failure to account for disposition is not specifically defined in regulations as being considered a marketing.

Recommendation: Define "failure to account for disposition of tobacco" to be considered a marketing of tobacco.

7. Problem: Floor sweepings tolerance.

Recommendation: No recommendation made to change the 0.50 percentage tolerance.

8. Problem: Flue-cured tobacco penalties are deductible only from the proceeds from tobacco going under loan. In many cases, producers assessed with a large penalty will avoid payment of the penalty by seeing that none of their tobacco goes under loan when auctioned.

Recommendation: Assess tobacco penalty in the same manner as peanuts primarily by providing for assessing a lien against the tobacco crop.

9. Problem: Subsection 725.72(c)(3)(v) provides that lessee farm must show need in order to lease pounds to the farm after June 14. Where natural disasters occur on farms in two successive years, undermarketings are lost unless they can be leased to another farm. In some cases, there are no farms within the county having a need to lease pounds.

Recommendation: Provide authority for COC with approval of STC to waive need requirement in special cases.

10. Problem: Subsection 1464.2(b)(2)(iii) provides for producer designations of the warehouse at which they will market their tobacco during a period announced by the County ASCS Office prior to the start of the period. When several farms are to be designated by a producer, there are instances when the designation of one of the multiple farms is inadvertently omitted either by the producer or County Office.

Recommendation: Provide COC with approval of STC authority to permit designation in cases where unusual circumstanes are involved.

11. Problem: It is very difficult for a producer who produces tobacco on more than one farm to keep the tobacco separate by farm during the production and marketing of tobacco.

Recommendation: Change procedure to permit the issuance of one marketing card to a producer having 100 percent interest in two or more farms. Any under/over marketing to be apportioned based on percentage share of quota each farm contributed to the marketing card. Beneficial to producers, and numerous violations would be eliminated, resulting in considerable savings in costs of investigations.

12. Problem: Subsection 1464.2(a)(2)(iii) provides the effective date of redesignation to be the second Monday following the Friday on which redesignation period ends. This waiting period causes hardship on farmers desiring to change warehouses due to unfair treatment.

Recommendation: Allow the redesignation to be effectibe on the date signed Would benefit farmers in that they would receive more equitable treatment by warehousepersons.

13. Problem: Penalties are assessed against warehousepersons for excess tobacco resales. Collection efforts are not always successful.

Recommendation: Require that payment of penalty be made before the annual agreement is executed and approved by Flue-Cured Tobacco Stabilizers to provide that price support be made available to growers using the warehouse facility for the sale of tobacco.

B. CHANGES APPLICABLE TO THE LAW

1. Problem: Many segments of the population nationwide believe that the tobacco allotment program is unfair in that it bestows an unfair advantage to producers who have access to an allotment. This was manifested by the recent

negative votes by Congressmen to do away with the tobacco program. There is a feeling also among some producers that when they purchase land with a tobacco allotment that by virtue of the tobacco allotment being attached to the farm the price of the farmland is in excess of what they would have to pay if they could purchase the land and allotment as separate increments. These same people feel that they should be allowed to purchase land without an allotment and then buy the amount of allotment from someone else that would fit their economic level of tobacco production. They also feel this would eliminate the cost of leasing annually. It is also noted that there are many producers who would sell their allotment if it was not attached to the land. Some people who would sell their allotments are:

(a) Elderly people who own allotments and are not able to produce the quota on their farm.

(b) Absentee owners who would prefer selling the allotment to avoid annual leasing agreements.

(c) Heirs of an estate where the allotment received is so insignificant that it would not be feasible to produce the crop.

Recommendation: Permit the sale of allotments and quotas within the county.

2. Problem: Subsection 725.95(b) of the tobacco regulations provides penalties for false identification or failure to account based on the larger of: (1) the actual marketing above 110 percent of the effective farm marketing quota, or (2) the amount of tobacco equal to 25 percent of the effective farm marketing quota plus the amount determined by multiplying the farm yield times the number of acres harvested in excess of the allotment.

Actual case.—1,434 pound violation resulted in $28,747.31 penalty.

Example.—1,434 pounds of tobacco produced on farm G1069 (effective quota 145,554 pounds) marketed on another farm. No excess marketings. Penalty computation 145,554×25 percent=36,389 pounds×79 cents=$28,747.31.

Recommendation: Change regulations to provide COC authority with approval of STC to determine equitable penalty based on one of the following: (1) The actual marketings above 110 percent of the effective farm marketing quota, or (2) the amount of tobacco equal to 25 percent of the effective farm marketing quota plus the amount determined by multiplying the farm yield times the number of acres harvested in excess of the allotment, or (3) the pounds in violation.

3. Problem: Subsection 725.72(3)(ii) provides that 80 percent of the acreage allotment on both the lessee's and lessor's farms must be planted in order for the farm to be eligible to lease and transfer tobacco quota after June 14. Producers using good cultural practices can produce the effective farm quota on less than 80 percent of the acreage allotment established for the farm.

Recommendation: Producers be given the opportunity to voluntarily reduce their acreage allotment for the farm permanently, to a level that would permit them to plant up to one hundred percent of the allotment without the probability of producing more than one hundred percent of the quota.

4. Problem: Some tobacco allotments are owned by inactive producers who lease their quota away annually. The public and many producers feel this is unfair and advocate putting allotments in the hands of people who plant and produce the crop.

Recommendation: If flue-cured tobacco is not actually produced on the farm in at least one of any three consecutive crop years:

(a) Allow the producer one year from the third year expiration date to dispose of the quota by selling the allotment and quota in the respective county and if the allotment is not sold the fourth year:

(b) The equivalent farm quota shall be made available for new farm allotment applicants in the State.

5. Problem: The public and others criticize the Flue-Cured Tobacco Program because some farms have allotments established with no tillable land.

Recommendation: Remove the allotments from such farm by allowing the owner to sell the allotment.

WILLIAMSBURG COUNTY FARM BUREAU,
Kingstree, S.C., February 19, 1982.

Hon. STROM THURMOND,
U.S. Senate, Russell Senate Office Building,
Washington, D.C.

DEAR SIR: The Board of Directors of Williamsburg County Farm Bureau would like to take this opportunity to express their appreciation for your continuing effort to preserve the tobacco program.

We realize that some changes are evident in order to maintain the program. In view of this, we would like to cite paragraphs from the South Carolina Farm Bureau Policies and Recommendations for 1982, as shown on the attached page.

Sincerely,

A. IRWIN MCINTOSH,
President.

SOUTH CAROLINA FARM BUREAU POLICIES AND RECOMMENDATIONS FOR 1982, EXCERPTS FROM TOBACCO SECTION

Paragraph 17.—In order to keep the United States competitive in the world market, we recommend that there be a 5 percent increase in the 1982 flue-cured tobacco marketing quota. We also recommend that the pricing formula be set at 65 percent of normal increase for a three-year period.

Paragraph 28.—We recommend that the South Carolina Farm Bureau and American Farm Bureau request that where property owners hold a tobacco allotment and there are insufficient cultivable acres available to grow such tobacco, these allotments be released to the county ASCS office for equal distribution to farmers who hold an allotment and have enough cultivable acres to grow the tobacco unless cultivable acreage has been removed through no direct action by the allotment holder.

Paragraph 31.—We urge that South Carolina Farm Bureau study the feasibility of selling tobacco allotments to farmers actively engaged in farming tobacco within county boundaries.

Paragraph 33.—We recommend that each producer of flue-cured tobacco, on each and every sale, he assessed ½ cent per pound to be placed in savings up to a reasonable amount, and if F. C. Stabilization Corporation was to ever have a loss on any crop, this accrued moneys would be used to keep the taxpayer from sharing in this loss. We do this to show Congress we intend to operate our tobacco program at no cost to the taxpayer. This would take effect after a two-thirds favorable vote in a producer referendum.

Paragraph 37.—We urge strict enforcement of the laws which dictate farmer to farmer leasing of tobacco allotment and eliminating the middleman, the speculator, and the warehouseman in this process.

GEORGIA DEPARTMENT OF AGRICULTURE,
Atlanta, Ga., February 10, 1982.

HON. JESSE HELMS,
U.S. Senator, P.O. Drawer 2888,
Raleigh, N.C.

DEAR JESSE: As Georgia Commissioner of Agriculture, I would like to submit for your consideration the following suggestions for inclusion in proposed legislative changes in the U.S. tobacco program.

(1) Provide for price support level adjustments so as to reflect changing economic and marketing conditions.

(2) Reduce the annual price support escalation to somewhere between 35 percent and 65 percent of the present increase so that U.S. tobacco can be competitive on the world market.

(3) Permit producer associations to collect an established fee from every producer marketing tobacco to offset any possible losses of tax moneys by the tobacco support program.

(4) Provide for an orderly manner for tobacco quotas to go to those producers who actually grow the tobacco. This could be accomplished by permitting the sale of allotments under certain conditions and a requirement for the allotment owner to grow the tobacco on his own land at least one year out of three. I think that eventual quota ownership by actual producers is necessary if U.S. growers are to compete pricewise in world tobacco trade. This transfer of quota ownership would need to be phased in over a period of at least five years.

With warmest personal regards, I am

Sincerely,

TOMMY IRVIN.

WILSON COUNTY YOUNG FARMER'S CLUB,
Wilson, N.C., February 24, 1982.

Hon. JESSEE HELMS,
Dirksen Building,
Washington, D.C.

DEAR MR. HELMS: We had the opportunity to attend the Tobacco Hearings held in Raleigh, N.C., and we appreciate your making this opportunity available to hear the views of farm organizations and individual tobacco producers.

The Wilson County Young Farmers Club has developed some resolutions concerning the tobacco program that are similar to many of those presented at the hearings. However, we would like our recommendations to be placed on record.

There are a few of these resolutions that we believe should be explained in greater detail in order to help you in making your decisions.

Resolution No. 4—Since this resolution was discussed at our meeting, additional information has come to light. Some Virginia producers have indicated to us that through the suburban spread of Baltimore and Washington that Maryland tobacco may not be produced in Maryland in the very near future. Therefore, it may be more appropriate to allow non-quota tobacco to be produced in flue-cured counties but a producer would either have to produce non-quota or flue-cured but not both during the same season.

Resolutions No. 13 and 17—There is a lot of controversy among producers concerning lease and transfer. It is nearly a 50–50 vote on whether to continue lease and transfer or to eliminate lease and transfer and require that all tobacco be planted on the farm. The opposition to lease and transfer is because quota lease price has gotten too high.

Resolution No. 14—All farms are set up under the same pounds and acres that was established in 1965. Advances in technology has improved the production of tobacco on these farms, and, therefore, when a producer plants the complete 100 percent of his acres he will produce more pounds than will be allowed to sell. Therefore, this excess tobacco carried over to the following year creates pressure to increase the leasing of quota and helps to establish a price. Reducing the tobacco acreage by 10 percent would help alleviate excess tobacco production.

Again, we appreciate your interest and the tremendous amount of work you have performed to keep the tobacco program, and the effort you are making to "fine tune" additional changes.

I will be happy to talk with you or your aides at any time.

Sincerely,

DAVID HINNANT, *President.*

RESOLUTIONS OF WILSON COUNTY YOUNG FARMER'S CLUB

"We believe the tobacco program to be essential to the economy and well being of the people of North Carolina. It also plays a very critical part in the American economy. It is for these reasons we oppose any efforts to eliminate or suspend the quota system for flue-cured tobacco. We offer the following changes in the current tobacco program:"

1. That by a per pound assessment, flue-cured tobacco farmers own and operate the Flue-cured Tobacco Cooperative Stabilization Corporation without any cost to the U.S. taxpayer.
2. That Stabilization be allowed to retain all funds held for members until it becomes self supporting.
3. That allotment owners must own sufficient cropland to plant all their allotment. If land is not available. go into county ASCS for redistribution.
4. That all non-quota tobacco produced in Flue-cured counties be charged against flue-cured quotas.
5. That the USDA Secretary of Agriculture, with the advice of a producer advisory committee, be given authority to make adjustments in the price loan levels for different grades of tobacco in order to make such kinds and grades more competitive in domestic and foreign markets and to help achieve the objective of a no-net-cost-to-the taxpayer other than such administrative expenses as are incidental to the implementation of the program. However, the reduction in over-all price loan level under the current formula shall not exceed 35 percent of the normal increase for any year as provided for under existing law. It is further recommended that this authority be granted for an initial period of five years.

6. That county ASCS offices should not be permitted to advertise for either lessor or lessee tobacco for rent giving pounds, name and address only and be forbidden to list asking price per pound.

7. That the current designation and redesignation programs be continued except that the last designation period would not have a two week waiting period.

8. That Stabilization be allowed to sell directly to foreign buyers at current prices.

9. That any monetary penalties caused by errors at the warehouse or ASCS not be charged the farmer but rather that his quota be reduced the following year.

10. That tobacco continue to be under separate legislation and not combined with the general farm program.

11. That any administrative or legislative changes in the tobacco program be made and announced on or before December 10 of the preceeding crop year.

12. That tobacco be uniformly graded throughout the marketing season.

13. We strongly oppose lease and transfer across county lines.

14. Reduce acreage of flue-cured tobacco by 10 percent with pounds remaining the same.

15. Since tobacco companies pay 17¢ import duty on imported tobacco, and these same companies are paid 16¢ per pound when tobacco is exported out, we recommend that a pro rata share of these funds be placed in Stabilization along with tobacco farmer assessments to make the tobacco program self sufficient.

16. Strongly favor the limitation on importation of flue-cured tobacco.

17. We oppose lease and transfer in county or across county lines.

18. Prohibit third party individuals becoming involved in tobacco leasing and transferring process. Under the present system, some persons are leasing poundage quotas and then subleasing and making a profit on the leased tobacco poundage.

MARCH 10, 1982.

Senator JESSE HELMS,
Dirksen Building,
Washington, D.C.

DEAR SENATOR HELMS: I would like to make a few comments on the tobacco program. I agree it needs some changing to bring it up to date.

1. The corporations that have bought farm land and put it to other use as shopping centers, housing developments, power plants, converted to tree farming, etc. should be required to turn these tobacco allotments back into the county offices for redistribution to small allotments holders.

2. For the small allotment holder there should be no restriction on it being tended on the farm as long as the farm is in cultivation. The cost of moving equipment for 2 or 3 acres makes it unprofitable.

3. Stop speculators renting large amounts of poundage in the spring to resell in the fall. This would help bring cost of rent down and thus help the small farmer that has to rent enough to go with his allotment.

Thanks for the assistance you have been to me.

Sincerely,

HENRY T. BAREFOOT.

FEBRUARY 26, 1982.

Senator JESSE HELMS,
Dirksen Building,
Washington, D.C.

DEAR SIR: I have been reading in newspapers and hearing on television and radio much about the concerns of the tobacco growers. I never realized until now that I am a notorious "Non-Grower."

In the 1930's, our forefathers decided to begin an allotment program for tobacco. I do not know if it was a wise move or not, but it was done. Now I understand some of our local farmers wish to take away the allotments that others of us have either purchased or inherited. I though things like this only happened in countries where there were not the freedoms that we are blessed with in the United States.

Some farmers have even gone further, suggesting that allotments be taken away only from non-growers and then redivided among growers. This is utterly ridiculous. An allotment, as you know, is money. You don't take someones money and redivide it among other people, at least not in a free society.

Some farmers have suggested taking away allotments from corporations. I am afraid the principle is the same. We sometimes feel that corporations owe us something, but the simple fact is, like it or not, they have the freedom to purchase land allotments in a free society same as the individual.

Recently, I have read and heard much about the Republicans and the President cutting the elderly's social security benefits. I know not whether the Republicans have this in mind. I am wondering in our area who is saying such things. They can not be Democrats who supposedly believe in social programs, yet, want to take away tobacco allotments that elderly citizens have worked for and depended on for their livelihood in their retirement years.

As far as principles goes, it makes very little difference whether allotments belong to corporations elderly citizens, or a typical citizen like myself. I believe in America and the freedom to buy, sell, and deal in the free enterprise system (free enterprise gives everybody a chance to get to the top—some depend too much on the free and not enough on the enterprise). To speculate on land and allotments is not necessarily something that should be illegal. Our local shop and junk dealer speculates daily. Recently, I have heard much about non-grower's speculating on land and allotments. This is their right.

Greed has destroyed many people. I remind these people, that wish to take from others to satisfy themselves, of the parable of the rich fool (St. Luke 12: 13–21). You can build greater barns and store up fruits and goods, but God said, "Thou fool, this night thy soul shall be required of thee: then whose shall those things be, which thou has provided?"

Tobacco farmers have been a strong united group of people for a considerable length of time. I grew tobacco for two years. I believe it is a critical day for farmers when they begin to divide themselves. I understand through our local paper that fifty-eight percent of tobacco allotments are owned by growers, which leaves forty-two percent owned by non-growers. I would sincerely hope that our elected officials listen to the non-growers as they have to the growers and somehow find a way of keeping the farming community together and maintaining the freedoms and integrity of our great nation.

Respectfully,

Earl W. Bielby.

Statement of Ralph F. Birdgers, Princeton, N.C.

PROPOSAL FOR CHANGES IN JOB PROGRAM

1. Keep acreage and poundage program with no price support or a minimum of 10-percent reduction in support rate.
2. Place current stocks on world markets in an orderly manner (Stab. stocks).
3. Inspectors, checking for unsound, mixed, blended and nested. Cost to be paid by producer and warehousemen.
4. Updating the yield per acre by using the most recent 5-year history.
5. Continue to lease and transfer within the counties.
6. No buying or selling of allotments under any circumstances.
7. Suspension of all acreage and poundage on lands obtained by any method, by utilities, counties, towns, state, Federal government, churches and developers.
8. The suspended acreage and poundage be redistributed to the remaining producers by their percent of the township or community total.
9. Most important, increase of acreage and poundage by not less than 10 percent, this would tend to stabilize lease cost, would maintain leasors income, and make the product more competitive in the world markets.
10. Gentlemen, we have been over controlled and over priced our product to the point we are fast becoming another automotive assembly line worker.

Princeton, N.C., *January 13, 1982.*

Senator Jesse Helms,
Dirksen Senate Office Building,
Washington, D.C.

Dear Senator Jesse Helms: Proposal for changes in tobacco program—

1. No price supports.
2. Place current stocks on world markets in an orderly manner. (Stabilization stocks.)

3. No government paid graders on markets.
4. Inspectors checking for unsound, mixed, blended, and
5. Up dating the yield per acre by using the most recent 5-year history.
6. Continue to lease and transfer within the counties.
7. Suspension of all-acreage and poundage on lands obtained by any method by utilities county, towns, state, federal government, churches and or any others not wholly or fully engaged in farming.
8. The suspended acreage and poundage be added to the community (not county) that produced the history and redistributed to the remaining producers, based on the farms percent of the community total.
9. Most important increase of acreage and poundage would curtail lease cost, would maintain leasor income, would make the product more competitive in world markets and most of all, would keep the tobacco producer from becoming another Detroit unemployed automotive assembly line worker.
10. An employed person is a better citizen than one unemployed or operating at a loss.

P.S.—I don't honestly feel the above proposal would hurt any person or segment of the industry. The exports should increase.

RALPH F. BIRDGERS.

STATEMENT OF JOHNNY M. ANGELL, PENHOOK, VA.

First of all let me say that my name is Johnny Angell. I am 27 years old and I live in the Penhook area of Franklin County, VA. I have been raising flue-cured tobacco since I graduated from high school ten years ago. I usually lease from other growers about three-fourths of my yearly allotment. Before I offer to you my suggestions for improving the tobacco program, I would like to thank you for making your address available in the Southeast Farm Press and urging tobacco farmers to send in their suggestions on improving the tobacco program.

My proposal for streamlining the tobacco program is as follows. Go back either three years or five years into Stabilization records and average what a tobacco producer has produced for that period. This number will be that producer's new allotment. If an allotment holder leased his tobacco for each of those five years (or three years) he would lose his allotment. Basically, what I am saying is take the allotment from the non-producer and give it to an active one. This average number will have to be adjusted down to achieve the same basic quota as this year's because in years past the total allotment was greater than it is today.

Here is a rough example: Let's say Farmer A is retired and no longer producing his tobacco allotment of roughly 5,000 pounds per year. He leases his tobacco to Farmer B for several years. Farmer B also has a base allotment of 5,000 pounds. This allotment he owns plus what he rents from Farmer A makes his quota 10,000 pounds per year. When Farmer A's allotment is averaged under my proposals he would lose his entire quota. Farmer B (the active producer) would gain Farmer A's allotment to add to his own. In effect this will average what an allotment holder has produced in five years (or three years) and his future allotment would be based entirely on the acreage he has produced in previous years.

Here's another example: Farmer C has a yearly allotment of 10,000 pounds. He produces his tobacco for two years and leases it for 3 years (based on a five-year average)/ When his allotment is average, he would lose 60 percent of his allotment and the remainder would go to the active producer.

Here are some direct benefits of this plan. The active farmer will own all of the quota. If a farmer averaged producing 60,000 pounds; adjusted downward to reflect the quota reductions that Stabilization imposed on producers in years past. This in effect would do away with the high cost of leasing tobacco quota.

The total basic allotment would be the same. It would only be in different people's hands. If a farmer wished to start tobacco farming in future years he still could find poundage to lease since some farmers with an allotment would be retiring or decreasing their allotment each year.

There would be as many old farmers retiring each year as there would be new ones starting each year. Also, an allotment holder still could increase or decrease his effective quota by leasing tobacco from another active grower.

With no high rental rates to pay, a tobacco producer could take a 10 cents per pound across the board cut per pound in his tobacco support prices and still make more money. This will place U.S. tobacco in a much more competitive position on the export market, which would be good news for all U.S. citizens due to a more favorable balance of trade.

Also, without these high quota rental rates, farmers could contribute 10 cents a pound to form a cash reserve for stabilization to purchase tobacco that tobacco companies don't buy on the warehouse floor.

Also, while I am here I would like to express my opinion on some ideas that I think will not be of any benefit to the tobacco program.

First, permitting a non-producing allotment holder to place his pounds up for sale to another tobacco farmer will not benefit the tobacco program. The cost per pound would be too high. Also, a tobacco farmer buying these pounds would have no guarantee that there would be a tobacco program for enough years for him to justify buying tobacco-quota at these high prices (probably over $2 per pound). There is no way to foresee the demand for tobacco in future years. It is possible that a producer could go in debt to buy tobacco pounds for which there would be little or no demand in future years; depending upon world supply and demand. Buying pounds would not allow a tobacco farmer to take less money for his tobacco and still make a profit. The program that I have suggested earlier would do this, making the U.S. tobacco more attractive to foreign buyers.

Neither will requiring an allotment holder to grow his allotment once every three years or lose his allotment. I know of several farmers who would produce a so-so crop every third year just to keep their allotment. This would not be of any benefit to the overall program.

In summary, let me just briefly recap what I have suggested. Base a producer's future allotment according to what he has actually produced in previous years. This will take the allotment away from the non-producer and give it to an active tobacco farmer. Cut the price support by 10 cents per pound to help the export market and form a cash reserve to operate Stabilization at no taxpayers expense. With these proposals it is my honest opinion that the tobacco program and tobacco farmers will both have a bright future. Please read this carefully and if there is anything about it you don't understand, please feel free to contact me. Thank you for reading this.

Statement of J. S. Newkirk, Farmer, Watha, N.C.

Because I cannot personally testify before one of the hearings, I hope you will consider my written testimony. I am Joseph S. Newkirk of Watha, North Carolina, Pender County. I have been engaged in the production of flue-cured tobacco since I was nine years old. That was the year of 1916. I was the youngest of my father's children. By the time I was twenty, the management of the crop fell to my lot. I am now seventy-four. Maybe, this qualifies me to offer a few observations.

1. Our tobacco program, which is three in one, it is a production control program, a price support program (Stabilization Corporation) and a market developing program (Tobacco Associates). Each of these must be on solid ground to bring about success of the whole. Now, I believe this program was designed and developed primarily to preserve the family sized tobacco operation. It is to be hoped we do not lose sight of this worthwhile goal in amending and updating this program. Nevertheless, it must be amended. It is very important, however, that small farmers continue to be actively participants in this program.

2. The leasing program has worked to a great advantage through an era of machinization; even small farmers felt the need to expand, but we must realize that it has brought about a too rapid expansion of a few. This put too much pressure on small farmers in the leasing market. However, I am in favor of continuing leasing. We have gone too far to retract now.

3. I am in favor of the Farm Bureau resolution to make it legal to sell tobacco quotas within county boundaries. I would not be right to prohibit one who had spent a lifetime in obtaining an equity in tobacco quota from cashing in on that quota without having to sell the farm. A few years ago it was permissible to combine all farms under one ownership, even though they were operated by a county line. This created a loophole whereby tobacco was transferred across county lines where it would lease for more. If this is allowed under this new law, I am afraid the deficit counties will lose some of their tax assets as well as some quotas.

4. I am in favor of the Farm Bureau resolution to empower the Secretary of Agriculture with authority to adjust or remove price supports on tobacco grades that are not in a competitive position in the marketplace. I believe this will do more good to resolve the import problem than anything else.

5. I hope the Secretary of Agriculture will, hereafter, set tobacco quotas high enough to produce an adequate supply of desirable tobacco. This is the only way we can be competitive enough and regain our rightful share of the world market. Give Tobacco Associates a workable chance and it will show you what it can do.

6. I believe that corporate ownership of tobacco quotas that are not actively participating in the production of tobacco should be given the opportunity to divest themselves of these quotas. Failing to avail themselves of the opportunity, these quotas should then be phased out.

7. I am in favor of operators being assessed to create a fund to keep Stabilization Cooperative Corporation in the black.

STATEMENT OF ALBERT G. STRADER, REIDSVILLE, N.C.

Mr. Chairman, we first of all need a fair target price, one that will be fair to grower as well as the leasee. To get this target price, I propose 22 to 25 percent of market average for the county.

Example: 165.00 market average × 22.00=36.30 (Clear one-fourth) 165×25=41.25.

The grower would by January 30 indicate whether he wanted to lease or whether he wishes to tend it on his farm. At the end of January ASCS office would add all the pounds to be leased. For example, with a 16 million base in county could be 8 million on farm being tended and 8 million to be leased. If this was the percent of tobacco to be leased in comparison to the amount being tended by farmers. Then you could on first leasing contract, you could lease 100 percent of amount of your base on your farm.

Suppose some growers did not wish to lease pounds in that case, they must go back in to ASCS pool and be allotted on an equal basis to those wishing to lease extra tobacco—five percent or ten percent or whatever that percentage was. But on an equal basis for every man wanting extra tobacco, providing he has the necessary land and meets ASCS policy.

February 1, growers wanting to lease pounds would go to ASCS and deposit money in the amount of example. The ASCS takes the money and pays growers for their poundage. This would be only way that any tobacco could be leased by anyone. Any poundage not taken on first contract would be allotted to growers wishing to purchase an equal basis but in same manner as contract No. 1.

Poundage not being leased in a joining county could be leased by another joining county at target price for that county. Any tobacco pounds not leased by April 1 would be eligible to be leased to joining county.

In the event that two counties joining county with pound not being used, each of the two or three or more counties joining with pounds would get a percentage based on allotment of each county.

The following year these pounds would go back to original county. It would work, just as out leasing transfer has in past.

Any poundage coming from another county for a given year would be leased on equal basis for all wanting those pounds. In all cases, you must deposit your money before any pounds are put on contract.

In all cases, this tobacco pounds is being leased must be tended by farmer on farm leasing pounds. Farmer can still rent farm on one-half or one-half just as he has done in the past.

STATEMENT OF RICHARD WHITAKER, PRESIDENT, RANDOLPH COUNTY, N.C., TOBACCO CLUB, ASHEBORO, N.C.

We are very interested in what may happen in the tobacco program, simply because of the effect it will have on our lives and the lives of others connected with the tobacco program.

During the last meeting, we came up with the proposals listed in this letter. They seem to describe the feeling of most tobacco farmers in our county.

We sincerely appreciate your interest and time in the tobacco program. Here is the list of recommendations:

1. Take tobacco allotments away from everyone. Redistribute within the same counties to active growers 80 percent based on their average for the last three years. Pool any remaining allotments at the county ASCS offices for new growers. They apply for and have to grow for 3 years before receiving their own allotment. Revalue each grower every three years. When a grower quits his allotment goes back into pool to be redistributed among active growers based on percentage of what they grow. Thus keeping the program always in the hands of active growers.

2. If lease prices are taken away we can grow for much less thus being able to compete with foreign markets.

3. We also go along with farmers supporting the tobacco support program. We want the provision that stabilization unload tobacco they already own over at least five year period, with equal percentages being sold each year in order to keep from overloading the market.

An orderly plan for tobacco allotment transfer:

I. Permit sale of entire allotment on any part above 10 percent to legitimate tobacco growers at mutually agreed compensation.

II. Permit leasing to continue as presently (with some modification to correct speculative abuses now being practiced) under these conditions. That 10 percent of the poundage leased become the property of the leasor and the rate of attrition continue at a minimum of 10 percent until the leasee party's remaining poundage is reduced by 90 percent and that remaining balance of allotment be the first year transaction.

This would give the present production segment adequate time and opportunity to work out the necessary financing and spread the risk of purchase of an intangible asset of considerable value over a period long enough to greatly reduce the hardships of adjustment necessary on the part of both the seller and buyer of these allotments.

By reducing the risk associated with the purchase and transfer of this allotment, the present owner of allotments interest is respected and his compensation continues for up to 10 years which in effect can be interpreted as a willingness of the purchaser to share in the fruits of a controlled and supported market with the seller. Such a plan would generate a maximum of saving for the seller and minimize the risk for the tobacco producer.

BRUNSWICK, N.C.

Senator JESSE HELMS,
Dirksen Office Building,
Washington, D.C.

DEAR SENATOR HELMS: I am glad I was able to attend the meeting you held in Raleigh in regards to the tobacco program. I am sure you received many useful suggestions which I feel sure will be helpful.

I have two things I want to emphasize that are needed for our tobacco program. One is the elimination of fall leasing; the other is to have each tobacco grower certify as to how much MH-30 was used on his tobacco.

With the misuse of the fall leasing provisions by not only the farmers but others connected with the production and sales of tobacco, I feel sure this provision needs to be eliminated.

With the over use of MH-30 which affects the quality of the tobacco, it would be helpful to require certification as to the amount used.

I would like to take this opportunity to express my appreciation for your contributions to the farm programs and your excellent representation in Washington for us farmers.

Sincerely,

CLYDE WAYNE.

ANGIER, N.C.

To: All North Carolina U.S. Senators.
Subject: North Carolina Tobacco Producing Farmers Opinion on Present Flue-Cured Tobacco Program.

Attached is a copy of a petition that I have without a lot of effort gathered from a few of my farmer friends in the small area around my home. I feel that with a little effort on my part or anyone's part that over 50 percent of all Tobacco

Producing farmers, including those like myself age 68 that own and operate tobacco farms and own and lease tobacco allotments would sign this petition. I own 13,500 pounds myself as do most of these petition signers.

This petition tells our true feelings and I feel that each N.C. Senator should be aware of these feelings.

Your truly,

JAMES V. BEASLEY.

RESOLUTION

Whereas the tobacco support program began at a time when controls were needed to enforce supply and demand, and

Whereas the economic element today is completely different from the time the program was stated, and

Whereas the lease and transfer aspect of the present tobacco program causes great hardship on the producers, and

Whereas, if the present program continues the producers will likely become bankrupt which would be disruptive to the tobacco industry and to the local economy; therefore be it

Resolved, That the tobacco program be abolished in its present form; to be replaced. Whereby the producer is allowed to produce sufficient quantities on an open market at a cost competitive of the world market and without the penalty of artificially high lease and transfer cost.

(26 signatures.)

REIDSVILLE, N.C., *March 16, 1982.*

Hon. JESSE HELMS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HELMS: I am a quota holder and a leaser producer of tobacco in Rockingham County, North Carolina. My quota is 6,839 pounds or 3.81 acres. I planted 18 acres of tobacco in 1981 and this year (1982) I will have only 9 acres of tobacco because of short supply and high cost of leasing. I would like to offer the following suggestions as probable solutions to the problems (especially small farmers) are now facing.

First—very important: Fine-Cured Tobacco Cooperative Stabilization Cooperation (tobacco producer's own) should be allowed to sell their tobacco at a profit to anyone or any country; actively advertising and pushing their product in overseas markets. If this is done, the Co-op will become self-supporting and any profits, after all expenses, shared by the stockholders. Adjustments in the grading and pricing of our tobacco to keep it competitive in overseas markets is a must.

Second: All tobacco quotas would have to be planted on the farm to which it is alloted; thus following the original 1938 concept of no land—no tobacco. Each farm that does not plant his allotment would lose one-third each year if the allotment is not planted on the land. Any quota not planted would be alloted to other farms in the county based on a percentage of tobacco planted on said farm the preceding year. I think all changes should be implemented at the county level.

Third: Tobacco quotas should be in the hands of the producers. The program wasn't set up as a profit maker for land speculators or a retirement fund for the elderly. Thousands of renters have been made to move off farms some of them having lived there for 20 to 40 years thus losing their homes. This enabled the owner of tobacco quota to make more profit by leasing his pounds and renting his house. You should see the faces of some of these people when told to move. Thousands of renters in 1938 don't have any tobacco allotment today, yet many participated in the tobacco program. Therefore, for renters today we need some form of letting them share in the future of the the tobacco program. My proposal for quota that is rented is as follows: The renter would get one-tenth of the quota per year, until he would own 50 percent of the quota on that farm. If he moves or decides to quit farming, he would then sell back to the landlord the amount of quota that he had accrued. The price for this quota would be set by ASCS of fair market value. If the renter buys or owns land of his own, he could transfer gained quota to his own land. However, as of today no farm could exceed 50 percent of open crop land.

Fourth: A limit should be placed on the number of acres a producer could produce under quota controls. Example: 50 acres for each head of household. This in itself would eliminate many problems today. This would insure the small farmer (like myself), offer more people jobs and produce a better quality tobacco.

Past President Woodrow Wilson warned that economic concentration could: "Give to a few men a control over the economic life of the country which they might abuse to the undoing of millions of men." I think this applies to the tobacco problems of today as well as in the whole economic system of America.

If our tobacco is not priced to be competitive with tobacco from other countries we are going to lose our domestic markets, domestic manufactures, as well as foreign markets.

North Carolina 1982—Basic tobacco—667,899,041 lbs. If half is leased (not unreasonable—probably higher) in some counties 80 percent is leased. This would give your 333,949,521 lbs. leased for $.50/lb. (conservative estimate) the profit would be $166,974,760.50.

I appreciate your taking the time to read this letter.

Respectfully,

LARRY F. BAKER.

RUFFIN, S.C., *January 25, 1982.*

Senator JESSE HELMS,
Senate Office Building,
Washington, D.C.

DEAR SENATOR HELMS: I am a small farmer who depends almost entirely on tobacco for my family's support. I know that I am in Colleton County (S.C.) and put out of the major tobacco producing counties. Nevertheless, this tobacco I produce (37 acres) means just as much to me as those farming much more.

I have been reading with great interest and concern about the reworking of our tobacco program. I know that some change is overdue. The suggestions by, I believe, North Carolina's Farm Bureau would put me completely out of business, as I can understand it. There is no possible way for me to plant tobacco on other farms every three years, as I rent small allotments (from 350 pounds up) and because some of these farms are 15 miles away. Also I am not financially able to arrange to buy allotments. I feel only the large farmer would benefit from this, as only he would have capital to finance this expenditure.

My suggestion is to redistribute tobacco allotments among farmers who have been planting tobacco for the last five or ten years. I realize this may not be popular among land owners, but I honestly feel this is the only solution that is fair to the tobacco producer. By taking away our burden of renting tobacco poundage, which is getting out of control, a fund could be set up at farmers' expense to have our own support program. I feel the support price could be lowered and maybe in return our export market could be helped.

As I said before, I am greatly concerned as I depend on tobacco for my livelihood. Please do not forget us—the Small Farmer.

I would appreciate knowing how you stand on this important tobacco issue. Thank you for doing what you can to help us.

Sincerely,

GERALD BRELAND.

BROWN SUMMIT, N.C., *February 2, 1982.*

JESSE HELMS,
U.S. Senate, Washington, D.C.

DEAR SIR: I am a tobacco farmer in Guilford County, North Carolina along with my two sons. We are very concerned about the changes that are in controversy about the tobacco program. It seems that all of the changes that have been suggested are to cost the tobacco producers more money to operate the program. As you know, the cost of the tobacco inspections has been placed upon the producers already in October, 1981. Now, U.S. Agriculture Secretary John Block has recommended that the Federal tobacco price support loan program become financially self sufficient, and that farmers pay for it with fees. My sons and I are all for this method of operation of the tobacco program, but the tobacco producers should own the tobacco allotments totally.

Let us go back to the beginning of the allotment control program in 1939. The farmers were given tobacco allotments according to the producers history of the individual farms (nonproducing and nongrowers) did not receive any tobacco allotments. With few changes, except the acreage poundage and lease and transfer program, the tobacco control program is basically the same as in

1939, in the meantime the land and allotments have changed hands time and time again. Now everybody it seems owns some tobacco allotments such as: large power companies, paper companies, doctors, lawyers, real estate firms and non farming individuals. All of these people are capitalizing on this system at the expense of the tobacco producers.

In our own farming operation, we have to mail checks to several other states to individuals and corporations to lease tobacco poundage and all we get is a receipt and the right to grow the tobacco. This lease price of tobacco poundage has gotten out of hand and is dangerously expensive. You might say this is the producers fault, but it is the fault of an obsolete and outdated tobacco control program.

The Farm Bureau has made some suggestions about changes to the program. We hope you are aware that most farm bureau officers are the ones that make these resolutions and are gentlemen farmers and tobacco allotment owners and are prejudiced toward keeping the allotments for lease and transfer as it is. The Bureau has also suggested to give the nonfarmers and corporations and other allotment owners the right to sell present allotments within the county. We producers do not think we should have to buy these allotments as it would be tremendously competitive and expensive.

We producers think the obsolete control program should be updated so the tobacco producers would own the allotment totally. The producers could then help free the stabilization price support and finally help lower the export price on leaf tobacco.

We tobacco farmers urge you gentlemen to consider carefully the plight of the tobacco producer and their need to stay competitive on the world market.

We tobacco producing farmers demand that the tobacco allotments be redistributed back to the tobacco producers within each individual county. We recommend this should be done by using crop history from each county ASCS office and a past history of from one to three years or one to five years.

With kindest regards, I am

Very truly yours,

MARCUS D. FAUCETTE.

DOBSON, N.C., *January 18, 1982.*

Senator JESSE HELMS,
Dirksen Senate Office Building,
Washington, D.C.

Hon. SENATOR HELMS: I am writing in reference to proposed hearings and changes in the tobacco program. I do not personally own tobacco acreage but my parents and my wife's parents along with several aunts and uncles do own tobacco allotments. Most of thees relations have grown too old to plant the tobacco, and lease it to others. After reading comments made by you at the recent Farm Bureau meeing in Raleigh, it sounds like you may be considering favoring changes which would go against these older citizens. As stated above, most of them are older now and feel they can not write or contact their Congressmen to speak their feelings on the matter.

The tobacco growers as they call themselves, are doing a lot of complaining and many of them are now spending the day and half the night at county stores and other hang out places discussing leasing prices. It is this group that is causing the price of leasing to go so high. Many of them started calling the allotment owners and harrassing them before the allotments were ever mailed to farm owners. They were offering outrageous prices long before the tobacco leases could be made.

The producers that are doing this have over extended themselves on credit. Many of them are not simply trying to make a living but trying to become financially independent in a short while by planting large acreages which they cannot manage. The results is a lot of low quality tobacco which the Government (FC) ends up with in the inventory and cannot sell.

These older citizens who own the allotments have worked long and hard to acquire farms with the allotments. They have paid taxes for years to build county seat towns like Dobson. A lot of these people are Republicans and did not get their fair share of tobacco acreage in the 1930's when it was passed out due to their politics. They have since worked long and hard to acquire farms that had good allotments on them. It would be a gross injustice for them to have these allotments taken away from them. To be rooked twice on these Government programs in a life time seems like too much for any group to accept. These allotment owners in general represent the property owners in a county like Surry and they are the people that have supported you whereas the producers are generally supporting the liberal candidates.

I understand that one of the proposals is to require the tobacco to be grown on the farm one year out of three. All of the allotment owners will do this if required, but this will make the acreage for lease one-third less each year which in turn will cause the producers to pay even higher prices. A second proposal is to allow the allotments to be sold within counties. This will simply cause more of these producers to go much deeper in debt thereby causing them more frustration. Supply and demand will set a fair leasing price.

I fully realize your position that you must listen to all sides. However, I would like to point out that many of these producers are people who can not and will not be satisfied regardless of the changes made. If you gave them all the tobacco allotments they wanted, they would continue to buy trucks, equipment, etc., and come back complaining next year asking Congress to do something else for them.

Also, I would point out that all tobacco producers do not fall in the category I have described. There are many family farmers which are able to finance themselves without a lot of credit, have not over-extended themselves, and have an adequate supply of labor to do a good job. This type of farmer usually owns land, a good allotment and is not complaining a great deal. I have talked with several in this group that do lease only part of the allotment they grow, and they have advised me they put money in savings every year.

One other point and I will close, there have been a group of auditors from the General Accounting Office visiting the county ASCS offices and talking with other agriculture office heads gathering information on the tobacco program.

I do not know what type statistics they are getting from the ASCS offices. However, I do know that the people they are talking with in the agriculture offices are professional people mostly and their comments and opinions are going to reflect the same attitude as the producers since they work with producers in their farm programs and have very little to no contact with most of the allotment owners. The auditors should get out in the community and talk with the merchants, allotment owners, bankers, county commissioners and the people that have built these counties and know the history of the county's economic development. Most of the professional people in the agriculture offices are not natives of the county and will support the complaints of the producers simply because they have to listen to them as you do.

I urge you not to support any immediate change in the tobacco program. The producers who are making all the noise about leasing are in the same class as the labor union supporters and the minority groups and they can never be satisfied.

Growing flue cured tobacco has never had a great amount of profit in it. All it has ever offered is a return for the farm family labor.

These large producers in most cases are trying to substitute capital (which they have to borrow) for this labor and the net return is usually low. They are trying to blame their failure on the Government tobacco program.

I say to you, do not let them destroy the tobacco program. They are a more destructive force against the tobacco program than the anti-smoking groups from other states.

Sincerely,

R. W. HUNTER.

MANSON, N.C., *February 22, 1982.*

Senator JESSE HELMS,
Dirksen Building,
Washington, D.C.

DEAR SENATOR HELMS: I have two sons farming our family farm. It gets more difficult each year, with rising costs and low returns. The growers and producers are caught in the middle. We want you to know what we think of the Federal tobacco program.

Tobacco allotments ownership by nonfarming corporations should end! No one should own allotments if there is no open cropland to plant it on, or they have not planted tobacco on that land for years and years.

Retired farmers and the elderly who have farmed all their lives should be allowed to sell or lease their allotment. But after their death it could not be passed on to their children, unless that child had been actually engaged in farming that land at the time of their parent's death. When a child chooses to leave the farm to seek employment elsewhere, that is exactly what he is doing, leaving the farm.

Allotments lost by nonfarmers should be redistributed to the growers who have been doing all the work, taking all the risks and oftentimes expenses eating up their profits.

However, if allotments continue as is, and the Federal tobacco program made self-supporting, the leasor of allotments should be compelled to support the program and share their part of the expenses, along with the lessee.

Sincerely,

ANNIE WILSON.

ELKIN, N.C., *January 14, 1982.*

Hon. JESSE HELMS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HELMS: As a tobacco grower in Wilkes County, N.C., I would like to express my view at the present time on leasing tobacco allotment from farm to farm.

First of all, the intent of lease and transfer was good, both for the allotment holder and the grower. However, in the last few years, the grower has been the loser.

In the beginning of the lease program, farmers in Wilkes County could lease tobacco at 5 cents per pound. In 1982 it has shot up to 35 cents per pound. A lot of allotments are up for auction to the highest bidder. We farmers cannot live with this much longer. Of course, I understand down east (your home), lease rates are perhaps twice as high as in some counties in the piedmont.

All of us in the tobacco business realize that all have problems that must be corrected or else the program as we now know will disappear.

Personally, I had rather sell tobacco at a cheaper price than to have to go through the ordeal of leasing as it now exists.

Having spent fifty years growing tobacco and knowing what tobacco has meant and still means to North Carolina, I urge you to use your voice in the best interest of us all.

Sincerely,

PAUL COOPER.

WESTFIELD, N.C., *February 10, 1982.*

Senator JESSE HELMS,
Raleigh, N.C.

DEAR SIR: I hope you will not endorse the idea of requiring that a tobacco crop be grown every three years on farms to which allotment is assigned.

I am a widow, and it would be difficult for me to get some one to plant my allotment, which is small, on my farm.

Sincerely,

SUSIE TILLEY.

SELMA, N.C., *February 16, 1982.*

Senator JESSE HELMS,
Washington, D.C.

DEAR SENATOR HELMS: In the recession of the tobacco program, I hope you will use your influence and vote to protect the allotments of retired farmers and widows of tobacco farmers. Most of these people only have a small social security check and the cash rent from these allotments to support themselves. To lose the cash rent from these allotments would work a real hardship upon these people who have spent their lives growing tobacco.

Yours sincerely,

GORDON BROWN.

BLADENBORO, N.C., *February 13, 1982.*

DEAR SENATOR HELMS: I am concerned over the changes that are being considered in the tobacco program. Mainly, taking acreage away from one person and giving it to another or forcing them to sell their allotment.

I have a tobacco allotment part of which I inherited and some I bought.

Last year I bought our farm 177.89 acres for $297,965.75. My understanding was that I also bought a tobacco and peanut allotment with this farm, not just the land.

If the government can vote to take this allotment away from me, why can't they vote to take a corporation away from the stock holders and give it to the employees? The stock holders are certainly not working the corporation. What is the difference?

People in Bladen Co. have paid approximately $7,000 to $8,000 per acre for tobacco allotments plus the cost of land. I don't see anything fair about taking this allotment away from them just because they rent it to another farmer instead of farming it themselves.

Sincerely,

DEWEY H. BRIDGES, Jr.

ELKIN, N.C., *February 13, 1982.*

Hon. JESSE HELMS,
U.S. Senate, Washington, D.C.

DEAR SENATOR HELMS: As a partner with my husband in growing tobacco; I would like to share my views on the tobacco program.

First of all, we are in favor of the Administrative program to be self-supporting. Over a period of time, we farmers may be able to assess ourselves and make it possible.

However, one of the major problems is the high cost of leasing. As you know most of the tobacco which is grown is leased from other farms with no limit on leasing cost. Our profit in growing a crop is gone before we even began a crop. Ordinarily, leasing was beneficial, both to the lessor and leasee. The lease is so high now that it isn't profitable to be grown. Just recently, a friend of mine in an adjoining county, who is a one hundred acre grower, with half of his poundage leased; leased his own poundage and sold his brick barns.

He at least can pay some debts or receive interest on the money received.

Were it not for leasing cost being so high, farmers could get along with a cheaper product at the market place. Therefore, we could compete with the world market for tobacco. We cannot stay in business very long; paying our way on the marketing area and continuing high leasing cost.

Please consider these comments as your Committee holds the tobacco hearings.

Sincerely,

Mrs. MOZELLE D. COOPER.

RAMSEUR, N.C., *February 19, 1982.*

SENATOR HELMS: I would like to express my opinion on the proposed tobacco allotment changes. I have been growing tobacco for twenty years, since I graduated from high school and have been able to make a good living but with each new season it has been progressively harder. I have about 2¼ acres allotment on my farm and have been leasing approximately 48 additional acres for several years.

First, under present conditions within 2 years I will be forced to quit because allotment holders want all the profit and have told me personally they didn't care whether I break even or go in the red so long as they get every penny they can possibly squeeze out of me for lease.

Second, I have to compete with bootleggers, spectators and etc. for allotment at lease time. Besides when and if I can ever retire from farming will I be able to lease off my allotment (50 acres history for growing for 20 or 30 years) that there is no way I can have but basically deserve under the present system.

Third, I am not going to ask anything for myself but what about the young people (18 to 30) who want to start farming? But under present system there is no way. They deserve a chance.

I have attended tobacco hearings at Fairmont, N.C., Raleigh, N.C. and am thoroughly disgusted with Farm Bureau, State Grange, and other organizations run by large allotment holders using up all the time trying to keep the actual grower from having any say as to what ought to be done to update the allotment system.

Fourth, I have personally tried to write a set of changes that would be fair to all concerned (grower, allotment holder, beginning grower and etc.) for a revised allotment system and it is entirely impossible unless it is put on a free market system.

Fifth. I think if there is going to be an allotment system that each county should base each farm alike as to poundage base (say 2000 per acre past history regardless of whether they make 1800 lbs., 2500 lbs., or bootlegged 4500 lbs. per acre) and issue maybe 75 percent of past history over 3 to 5 years. Then put another 25 percent in a county pool for new growers. When a grower quits or retires his allotment goes back to pool to be redistributed to active growers.

Sixth, if something of this nature can't be worked out I say do away with allotments and go to a free market. Let anyone grow tobacco that wants to as it probably should be in the first place.

Sincerely,

RICHARD CANOY.

FREEMONT, N.C., *February 18, 1982.*

Senator JESSE HELMS,
P.O. Drawer 28126,
Raleigh, N.C.

DEAR HONORABLE SENATOR HELMS: I am a tobacco grower as well as a tobacco allotment holder. I appreciate all your efforts and dedication to saving the tobacco program in Congress last fall. Without your actions, I fear the program would not have survived the fight in the U.S. Senate. Thank you, too, for your support of the hearings on changes in the tobacco program.

I attended two of the hearings. I feel they were most beneficial and stimulating to my thinking. As a result, I would like to express my views on the proposed changes. Please consider the following ideas.

I think the major problem of leasing tobacco is there are more producers than available allotment pounds. In the past ten years mechanization and easy credit have encouraged more and more producers.

I do not favor tobacco allotments pooled by the A.S.C.S. office for the purpose of leasing. This action would increase the administrative cost of the program and would not lower the lease prices. I would like more clarification of the proposal to pool tobacco allotments for leasing. It sounds too confusing for me to understand how it can be administered satisfactorily in the future.

I favor supply and demand of tobacco poundage running its course.

The high cost of producing tobacco almost mandates the lease and transfer of allotments. It is more economical to produce tobacco in a 25 acre field than in a 1.62 acre field. The only reason I see for tobacco to be grown on the farm to which it is assigned, is to verify that the farm has enough tillable land to grow the allotment. The county A.S.C.S. committeemen could administer this action. In event his action is not feasible, I favor planting the allotment on the assigned land one out of three years.

I favor the sale of tobacco allotments within a county. If anyone is made to sell his allotment, it should be confined to corporations, municipalities or allotment holders without enough tillable land on which to grow their allotment. I would like to have a law enacted to prohibit (non-farming) corporations and municipalities from purchasing tobacco allotments in the future.

I favor tobacco farmers financing the Tobacco Stabilization Program. The accessed fee for this purpose should be taken at the warehouse. Any fee accessed to the allotment holder, warehouseman or tobacco company will result in the producers paying it.

I favor a stiff penalty placed on any producer or warehouseman who sells nested tobacco. The Nested tobacco should be exposed while it is in the sheet which it sold. After the tobacco is taken from the sheet, the tobacco should lose the grower's identity.

Please consider my views and all the others you have heard from farmers while you plan the changes in the tobacco program. I trust you with your colleagues can and will design a program acceptable to both Congress and the tobacco farmers.

Thank you for all your involvement and success in this program—past and future.

Sincerely,

HARRY BALLAREE.

GIBSONVILLE, N.C., *January 20, 1982.*

MR. JESSE HELMS,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SIR: I am writing to you concerning the tobacco issue. I am a farmer in Guilford County with the major income coming from tobacco.

There seems to be a lot of turmoil among tobacco farmers over the lease issue. The larger tobacco farmers in our country are successfully overtaking the small young farmers who are trying to get started in farming. The way the present laws are in effect over leasing, they do not have a chance.

I would like to suggest that we do away with the leasing program and return to planting the tobacco allotment on the farm. This would resolve several of the farmers problems. The Corporations with allotments and no land to plant it on would have to be divided among growers with existing allotments, preferably the young farmers who need the base increase to get a better start in farming. This plant would also stop farmers from bidding among themselves and causing more problems for the program.

The tobacco program was fairly strong until we went into the leasing program. It existed for several years without major conflict and, for that reason, I think it will work again.

We need to reduce our loan program so we can compete with foreign markets. We have priced ourselves out of the export market. If we could regain our export market, we would be able to raise our income and help the economy with exports. This would eventually give us a stronger stand in Congress and farmers would have a friendly relationship among themselves.

I am a leader in our community and have discussed this problem with several producers and landowners and have their support.

I would deeply appreciate your support and views on this matter.

Sincerely,

J. HOWARD LOG.

SOUTH HILL, VA., *February 15, 1982.*

DEAR SENATOR HELMS: We are writing to you as a concerned tobacco allotment holder.

We have lived on a farm all of our life. We grew tobacco for many years, in fact until farm labor became so trifling in their attitude. All their interest seemed to be on their two and sometimes three meals a day, besides their pay (the latter often insisted on before the work was done).

This brought us to a breaking point in farming. Since then our attempt to survive has been the Lease/Transfer of our tobacco (less than 4 acres), which has proven very successful. We try to live and let live, therefore we have always asked a reasonable price for our poundage.

There are many, many people who are disabled to work, some are elderly and in poor health, some are widows, all striving to obtain an income from tobacco rent as a source of income for livelihood.

We are told that there is going to be a great change in the tobacco program, what this means we don't know, but we would like very much to continue having the Lease/Transfer in effect.

We would like to suggest that the rental price for the coming year be based on the percentage of the county's market average for the present year. This we feel would be fair for everyone concerned.

We are asking if you will, please help to keep the tobacco program in effect and not allow the small farms to suffer just because we can't tend our tobacco.

We would like to hear from you concerning this.

Thank you kindly for any help that you will render.

Sincerely,

MARGARET AND DREWRY MARTIN.

RALEIGH, N.C.

Senator JESSE HELMS,
Dirksen Senate Office Building,
Washington, D.C.

I believe most everyone is against the Farmer.

Seems unfair to even think of taking away the tobacco allotment from a Farmer that does not grow his.

Will we not have to pay taxes on our land?

Farmers have to pay the price asked for every thing they buy. But when he goes to sell he has to accept the price offered. Is this fair?

Please leave tobacco allotments with the Farmer, to raise, sell, or whatever is best for his farm.

MARJORIE D. KELLY.

TAYLORSVILLE, N.C.

Senator JESSE HELMS,
Washington, D. C.

HONORABLE SIR: You haven't heard from me for awhile. I'm okay. I hope you and the cowboy are doing all right up in Washington!

Sir, I'm interested in what you people are fixing to do to us tobacco farmers.

I've heard about proposed changes in our tobacco program from the Tobacco Growers Association and Farm Bureau (a number of which will put me out of business).

If you people had guts enough to do the right thing regardless of the votes it might cost you, you could go along with the simple changes that I suggested.

Please consider the following suggestions. A copy of them has already been sent to Congressman Charlie Rose.

Sincerely,

H. CALVIN JOHNSON.

ATTACHMENT

1. An allotment and/or quota:

(a) Give growers and farm allotments or quotas based on a 5 year history of farm production.

(b) Do away with acreage restrictions while keeping a poundage limit. (This would do away with the urgency to use excessive nitrogen in order to increase yields which helps cause more lower quality tobacco.).

2. On price support:

(a) Lower price supports 10 percent provided 1a (above) is put in effect. (This possibly could make the price of our leaf a little more attractive to buyers, domestic and foreign.)

(b) Keep the grading system like it is. (We can live with paying the grades which were started in the latter part of marketing season in 1981.)

3. On imported tobacco: Put more tariff on imported tobacco, including tobacco classified as scrap. (This would make it profitable for manufacturers to buy our downstalk (variegated type leaf.)).

The above simple suggestion, I believe would please all tobacco growers.

Perhaps, if the opponents of the tobacco program were made aware of the amount of tax that tobacco generates, they would be more in favor of the program.

MIDDLESEX, N.C., *February 24, 1982.*

Attention Congressman Fountain.

DEAR L. H.: Since I am a bonafide tobacco grower dating back to 1951 and since 95 percent of my entire family income has been derived from the production and sales of tobacco, I feel somewhat qualified to offer suggestions regarding the new approach which must be taken to make our tobacco program self-supporting with no cost to the federal government.

My recommendations are these: There shall be no fall leasing of tobacco poundage; the grower shall sell only 100 percent of his allotted quota; no grower shall be allowed to plant 110 percent of his acreage in order to comply with the four leaf program; all allotment holders, warehousemen, buying companies and growers shall share in the operational cost of this new program; allow sales of allotments within the county if the owner desires; encourage CP&L and other non-farming corporations, et cetera, to relinquish their tobacco poundage or sell outright to bonafide growers; adjust price supports downward or undesirable down stalk tobacco to a point where it would be extremely unprofitable for the grower to attempt to market this tobacco.

I feel that moving the tobacco quota back to the original farm every three years would be impractical, this concept would be too expensive for lessee to move back and forth to tend allotment; finally, it is my opinion that farmer retirees and widows who must have their rental fees to supplement their retirement benefits (social security) should be allowed to retain their tobacco poundage quota. The first three suggestions should be effected for 1982 crop.

Respectfully,

BART STRICKLAND.

P.S.—The poundage to be sold by CP&L and others should be pooled at the county ASCS office for sale to growers who wish to buy these pounds. The County Agricultural Committeemen would be given authority to set price for this tobacco. No auction sales, please. I have a lot of relatives in Durham County. Pardon this typing. I'm a Farmer, as you know—not a typist.

FEBRUARY 4, 1982.

Senator JESSE HELMS,
Senate Office Building,
Washington, D.C.

DEAR SIR: I am not one of your constituents but I have farmed since my discharge from the Marine Corps in 1946 and have grown tobacco in volume (20 acres or more) every year. I am writing this letter in hopes that I can express my feelings about the changes I feel is necessary for many young farmers to continue to farm tobacco at a profit. I think we all agree that there needs to be some changes made in the allotment program if all tobacco farmers are to get a fair shake.

First of all I believe that we are letting the price of leaf tobacco get out of hand. I believe that the producer could live with a top price of $1.50 per pound for the top grade if he or she would eliminate the practice of using every kind of chemical that is available to control tobacco and enough fertilizer to be sure to make their tonnage plus some. This would put a more wholesome product on the market without chemical residue and reduce pollution to some extent at the same time.

I believe if every farmer or allotment holder could produce on an unlimited acreage his poundage and could not carry any poundage forward or backward with the freedom of choice to sell or buy poundage as needed at market time, there would be an adequate quantity of tobacco grown using less nitrogen and less ripening agents, thereby, offering the market a quality of ripe tobacco that would be good for the trade and less expensive to grow and cure. If a grower could sell his poundage anywhere on any market there would always be an adequate supply of leaf to meet the national quota.

I also believe if the designation program was abolished it would probably stop some warehousemen from leasing huge poundage and growing some for the purpose of getting more sale days. This would in my judgment bring the price of tobacco rent down to some degree. I would like to see all warehouses have the same selling time and to hold down their expenses, let them weigh and unload at their discretion. The competition could dictate the hours and days the warehousemen would work. Presently warehousemen have growers by the neck once their tobacco is designated.

I also believe that the allotment system should be changed to more nearly be assigned to the grower rather than the landowner.

Presently there are many non farmers and absentee landowners who will go to any length to jack-up the price of quota never thinking of tomorrow or of the person's welfare who does the work or runs the risk of growing the tonnage. This is one of the reasons I favor the amendment by Senator Eagleton from Missouri to abolish allotments if a person did not derive 51 percent of his income from the farm. This was most certainly a good bill and in the long run I believe it would have been good for agriculture by putting the alloted crops in the hands of the person who grows it, thereby, relieving him of some of his expenses on the crops grown. So I propose these changes in the program:

1. Limit production but allow enough to fill the needs of tobacco Companies so that the top bids would be around $1.50 per pound.

2. Allow unlimited production but allow only the national poundage quota to be sold each year whether its grown in the belt its allotted to or not. This would encourage farmers to grow enough tobacco of good quality to assure him of his quota. He could dispose of the rest as he saw fit as long as it did not get in the domestic market. Let U.S.D.A. police the manufacturer rather than the farmer, it will be considerably cheaper to the industry.

3. Eliminate the designation of tobacco and the control of loading, unloading and weighing tobacco. This will release the grower from the control of the warehousemen after he designates and allow the grower to go to another warehouse if he could not get sold in a reasonable time.

4. Allow all warehousemen the same selling time and pounds. Eliminate the restrictions of loading, unloading and weighing tobacco. Let each warehouseman use his own judgment about when to work.

5. Allow farmers to sell quota across County and State lines during last half of the sales season. This would eliminate the practice of warehousemen selling or filling tobacco cards and taking a cut off the top.

Sincerely,

L. J. LOWERY.

[The following petition, signed by 854 constituents, was sent to Senator Strom Thurmond of South Carolina on April 30, 1982. Senator Thurmond forwarded the petition to the committee for inclusion in the hearings on Oversight on the Tobacco Price Support Program. Because many of the signatures are illegible, only the transmittal letter from Annie W. Lundy, Route 3, Box 197-F, Conway, S.C., along with the petition will be printed. The letter and petition follow:]

CONWAY, S.C., *April 30, 1982.*

Hon. STROM THURMOND,
Washington, D.C.

DEAR SENATOR THURMOND: We are widow women who have faithfully worked to gather these signatures on this petition and we would not trust them to anyone but you. We want you to place this petition where all members of Congress can have the opportunity to see and read it. Please explain to the Congressmen that widows, disabled and retired farmers stand to lose their very livelihoods if allotments are taken away. We must be considered and we will appreciate any efforts on your part to help us.

Humbly and sincerely, your constituent and friend,

ANNIE W. LUNDY.

PETITION

To Members of the United States Congress:

We the undersigned Petitioners are all persons holding tobacco allotments of varying quantities, members of families holding the same, or interested in the tobacco allotment system. Many of us are also persons who, although not actively engaged in tobacco farming, lease our tobacco allotments on an annual basis to persons who are actively engaged in the cultivation of tobacco.

It is our understanding that meetings are being held for the purpose of determining whether or not the tobacco allotment system should be changed to require that all tobacco allotments held by those not actively engaged in the cultivation of tobacco be either taken away entirely from those persons or held in a "pool" at local A.S.C.S. offices and be rented by personnel from those offices at rates set by them to persons of their discretion.

We are opposed to the above referred to changes being made in the tobacco allotment system. Not only would the persons who hold tobacco allotments, but do not actively cultivate tobacco, be deprived of one of the methods by which they earn their livelihood, but we further feel that any such changes would be an unconstitutional deprivation of their property.

Therefore, we respectfully Petition and request that this Congress abstain from making any changes in the tobacco allotment system.

Respectfully submitted this 30th day of April, 1982.

OVERSIGHT ON THE TOBACCO PRICE SUPPORT PROGRAM

MONDAY, MARCH 15, 1982

U.S. Senate,
Committee on Agriculture, Nutrition, and Forestry,
Lexington, Ky.

The committee met, pursuant to notice, at 9:30 a.m., in the Seay Auditorium, University of Kentucky, Hon. Walter D. Huddleston presiding.

Present: Senators Helms and Huddleston.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator Huddleston. The hearing will come to order. I want to welcome all of you here to this hearing conducted by the Committee on Agriculture, Nutrition, and Forestry of the U.S. Senate into matters relating to the tobacco price support program.

First of all, I want to welcome the chairman of our committee, the distinguished Senator from North Carolina who has done a tremendous job on all agricultural matters, particularly those relating to the tobacco program. Much of the great good fortune we have had in trying to protect the program is the fact that Senator Helms became chairman of the Agriculture Committee. Being from North Carolina, the only State that produces more tobacco than Kentucky, he is not only totally familiar with the program, knowledgeable about it, but is dedicated to preserving it and improving it as time goes on. Because of his influence within the Senate, his dedication and his very hard work, we were able to beat back some very debilitating amendments that were offered last year in the Congress. So, I want to welcome Senator Helms to this hearing and express our appreciation to him for coming here today.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The Chairman. Senator Huddleston, it is a pleasure to be here and I said to a number of Kentuckians since we arrived last evening who said in most cases, "What can we do to help the tobacco program?" and my stock answer, and I mean it, is to keep Dee Huddleston covered up so that he won't catch pneumonia because we have got to have a worker on the Senate floor and no commitee chairman will ever be more pleased than I am in having the opportunity to work with Dee Huddleston. I am not going to make a speech on tobacco. I don't think a speech is required. I was thinking, looking at your Lieutenant Governor. Our Lieutenant Governor is a fellow by the name of Jim Green. He is a great, big, old burley tobacco grower. He is a burley and Flue-cured tobacco grower and we don't have a Lieutenant Governor in North Carolina like yours, and I am looking forward to your testimony.

But the meat of the program, ladies and gentlemen, is that Dee Huddleston and I have no intention of sitting idly by while the livelihood of the 276,000 American tobacco farmers is destroyed. That is the reason we are here. We have come to listen. We will ask a few questions of the witnesses as we go along and Dee, thank you for inviting me to your hearing in Kentucky. Thank you very much.

Senator Huddleston. Thank you, Senator, and let me say that the Senator has graciously turned the gavel over to me. This doesn't happen normally. He is the chairman of the committee and does preside, and that is his prerogative and responsibility, but since we are here in Kentucky, he has given me that privilege and responsibility.

At this time I would like to present the mayor of this great city for whatever comment he may have. The Honorable Scotty Baesler, mayor of Lexington, Ky.

STATEMENT OF HON. SCOTTY BAESLER, MAYOR, LEXINGTON, KY.

Mayor Baesler. Thank you very much, Senator Huddleston, and Senator Helms. We welcome both of you to Lexington, particularly for the purpose you are here. As I am sure both of you are aware at this time, I am sure Senator Huddleston has made it clear to the other Members of Congress, Lexington, Fayette County, particularly is very dependent upon the tobacco industry. We have approximately 1,500 landowners who share our quota of some 13 million pounds of burley tobacco. The Lexington tobacco market has 36 sales floors and this year, 1981, grossed approximately $150 million. That is so important to us. Over 5,000 seasonal and full-time people are employed in the tobacco industry in Fayette County alone. We are particularly glad you are here. We feel continually that tobacco means so much to Lexington, Fayette County, Ky., and particularly last year as you all well know, with the falling prices of corn and falling prices of cattle, the tobacco crop was the one stabilizing force we had in our agricultural this year. We thank you for coming to Lexington, Fayette County, Ky., and we looked forward to your coming here.

Senator Huddleston. Senator Helms, this great facility we are in now, as you well know, is part of the University of Kentucky. The University means much to the agriculture program in Kentucky and the entire Nation as a matter of fact. Nobody has been more helpful and supportive of us in Congress as we try to seek the right balance and the right direction for agriculture programs than this university and the head of the School of Agriculture, Dr. Charles Barnhart. We are pleased to hear his comments.

STATEMENT OF DR. CHARLES BARNHART, DEAN, COLLEGE OF AGRICULTURE, UNIVERSITY OF KENTUCKY

Dr. **Barnhart.** Thank you, Senator Huddleston, Senator Helms, Governor Collins, distinguished ladies and gentlemen in the audience. It is a real privilege and pleasure for me to welcome Senator Huddleston and all of the members of this hearing today to the College of Agriculture and to the Seay Auditorium. We are always honored when Senator Huddleston comes to our campus, whether to speak to our faculty and students, or to hold Senate hearings or any kind of business that he transacts because we know that he is working full time for the benefit of the Kentucky farmers and that is what our College of Agriculture is about. We are very pleased and proud of the things that he is doing for Kentucky agriculture and it is our privilege to serve as hosts of this hearing today. We feel that it is most essential to Kentucky agriculture that we work with all tobacco producers in this State. The burley tobacco industry is the most significant source of cash farm income for Kentucky farmers and it is the responsibility of this college to develop new technology, new knowledge as far as tobacco is concerned. It is our responsibility to, through our cooperative extension services, to disseminate new knowledge and new information and see that our tobacco producers in the State are the best informed tobacco producers in the United States and that is one of the objectives we have in our programs here. It is always very gratifying to those of us here at the college to see a large delegation of farm leaders attend any event in this building. I extend a warm welcome to each of you that are here today to express your views and your opinions on this very important subject. I welcome all of you here today and I trust that we will have a most productive meeting. Thank you, Senator Huddleston.

Senator **Huddleston.** Thank you, Dr. Barnhart. And now, for obvious reasons, we would like to hear from the Lieutenant Governor of the State of Kentucky, whose interest in agriculture and tobacco is well known and has been demonstrated over a period of years. I am pleased to present the Honorable Martha Layne Collins, Lieutenant Governor of Kentucky.

STATEMENT OF HON. MARTHA LAYNE COLLINS, LIEUTENANT GOVERNOR, STATE OF KENTUCKY

Lt. Gov. **Collins.** Thank you, Mr. Chairman, Senator Huddleston, members of the committee, ladies and gentlemen. I appreciate the opportunity to be here today to testify and to encourage support for our tobacco program, and I want to thank everyone here at the University of Kentucky for their hospitality.

No subject is more important to Kentucky farmers than reconsideration of Federal marketing and stabilization policies on any commodity. In the current depressed market for agricultural commodities, only two agricultural products have consistently produced cash profits for Kentucky's small and medium-sized farm operators. The Federal support programs supporting both profitable segments of the agricultural commodity are under scrutiny. Our dairy farmers are beginning to fear the end of Federal marketing orders guaranteeing a stable and equitable market for their milk due to increasing surpluses. Today, we are subjecting the stable and predictable market for tobacco, Kentucky's largest cash crop, to similar scrutiny. Tobacco is vital to our small farmers. It is to many Kentuckians the difference between financial independence and business failure. First sales of burley tobacco in Kentucky alone produced well over $900 million in revenue last season. Kentucky burley growers made a fair return on their extensive investments in land, labor, and agrichemicals that went into the production of burley. In western Kentucky many farmers reaped similar benefits from dark air and dark Fire-cured tobacco. The tobacco support program originated in the Agricultural Adjustment Act in 1933. It was born in a time of economic crisis for America's farmers, a time when the farmer's power to earn and purchase consumer goods had slipped behind the ability of nonfarm laborers to earn and purchase the same goods. The tobacco support program is but one segment of a complex, interrelated system that insures stability of markets and availability of commodities for the consumers of agricultural products. At the same time it provides for economic equality of opportunity for farmers. Not only has the tobacco support program made tobacco the single, most reliable cash crop for Kentucky farmers, it also costs less to the taxpayer than any of the other commodity support programs in the complex national system. An adequate supply of quality tobacco has been available to support the manufacturing industry insuring additional economic support for nonfarm laborers.

The unique characteristics of tobacco have subjected the support program to vehement attack in the Congress during the last session. With the concentrated effort of Kentucky's congressional delegation and the delegations of our other tobacco producing States, the program remains viable. Yet the program faces another grave challenge. A congressional mandate to the Secretary of Agriculture to develop a program that operates with no net cost to the taxpayers. The tobacco program can meet that challenge with less effort than any other commodity support program. Secretary Block's proposal provides us with the first step toward resolving the problems of establishing a no net cost tobacco program. The marketing system is composed of many competing interests and the final framework will have to be drawn with consideration shown to all interested in a fair portion of the burden allocated to each. Although my family and I are producers of burley tobacco as are most Kentuckians who farm, I speak today as a representative of the Commonwealth and all the divergent interests in Kentucky. I shall not address the technical changes that will ultimately determine the final structure of a no net cost program because that is where the interest will ultimately be balanced. But I want to urge the committee, the Secretary of Agriculture, and the representatives of the tobacco industry, farmers, warehousemen, and others, to demonstrate to the administration and to Congress the strength and resolve which teamwork can produce in order to preserve the valuable support for tobacco.

Thank you. I appreciate being here and I must get back to Frankfort to take care of business there. Thank you all so much for inviting me.

Senator **Huddleston**. Nobody works harder or more effectively for all of Kentucky and the tobacco program than my colleague, Senator Wendell Ford, who wanted to be here today but found it impossible to do so. He does have his legislative assistant for agricultural matters, Dr. Don Graves. Dr. Graves is on leave from the University of Kentucky and I will ask him at this time to present what statement he might care to make on behalf of Senator Ford. Dr. Graves.

STATEMENT OF HON. WENDELL H. FORD, A U.S. SENATOR FROM KENTUCKY, AS PRESENTED BY DR. DONALD GRAVES

Dr. **Graves**. Mr. Chairman, Senator Huddleston, members of the committee, ladies and gentlemen, Senator Ford regrets that it is not possible for him to attend this hearing in person today but there is another matter of concern to the tobacco industry that is occupying his attention. Tomorrow morning the Senate Commerce Committee on which Senator Ford serves begins hearings on legislation concerning the labeling of tobacco products. Senator Ford is preparing for these hearings today and, of course, wishes he could be both here and there but that simply is not possible. He has asked me to represent his office at these hearings and to present his statement in his behalf.

These hearings today are part of an immediate and important mission by the Senate Agriculture Committee to save the tobacco price support program as we know it. Senator Huddleston is to be commended for taking these hearings out into the field to guarantee that all segments of the industry have ample opportunity to make their opinions known and to work with the Congress in making the changes we have been told are necessary if the program is to survive. There is no question that the price support program is at a major crossroad. It is up to us, we who understand the need for the benefits of this program, to find a way to put the program's critics at rest. This is a very serious matter. If we fail to act, then others who are far less sympathetic and understanding will make those changes for us, and I am not understating the fact one bit when I say that what they have in mind is definitely not in the farmers' best interests. The sole purpose of these hearings is to consider and develop recommendations for change, air each and every recommendation in a public forum and then reach a consensus that will maintain the integrity of the program and silence the critics as well.

This is not a simple assignment but it by no means should be regarded an impossible task either. After all, you and I know that the program is not a subsidy but a voluntarily established marketing system. You and I know that the program has operated cheaply and efficiently when compared to other commodities. We are already close to the no cost position for burley and I am of the opinion that we should be very careful in our ultimate decisions that we do not go too far in programs introduced where burley is concerned. Our actions must be balanced, however, with the knowledge that if we lose this program it will have a catastrophic effect across the state, not just to the farmer but to the communities whose economy depends greatly on how the tobacco market goes. When a crop is good, then times are good. When the crop is off, then the times are just so so. I am sure that you will hear this time and time again just as you have in every other place where these hearings have been held. I hope these hearings will bring about a quick and positive response to the mandate that we have been given so that the program's critics can be silenced for good.

It is important that we put this matter behind us and the sooner, the better. It is also just as important that we be united in choosing the eventual course to take. Over the years our strength, and I am speaking for all of the tobacco Members of Congress, has come from our unity. If our unity should ever falter, if it's diluted, then we will become more vulnerable than ever to the attacks on a program that is the backbone of the State's agricultural economy. Thank you, Mr. Chairman, Senator Huddleston.

Senator HUDDLESTON. Congressman Larry Hopkins is working on the House side at the same time we are on the Senate. He has submitted for the record a letter which we will receive and put in the record at this time.[1]

The CHAIRMAN. Senator Huddleston, if you will yield to me, Congressman Hopkins also called me on Friday and expressed his sentiments, and regrets that he could not be here. We have a representative for Senator John East, my colleague from North Carolina, Jason Galloway, who is in back of us, and also have the staff director, George Dunlop, George put up your hand, and Carl Rose who is our staff director for the minority, both very competent people and so while they are here if you want to testify yourselves, make sure you make your appearance known. Thank you.

Senator HUDDLESTON. Turning again to the specific witnesses, let me briefly state where we are in the hearing process and why we are here in the first place. I will forgo in the interest of time, speaking of the value of the tobacco program to Kentucky or the country because as Senator Helms said, there is no need. The tobacco program has come under attack in Congress every year during the 10 years I have been there. The attacks were more severe last year than ever before primarily for two reasons. One reason was that we are operating under extreme budget restraint now in Congress and every program is in competition with every other program. Some Members who were willing to support tobacco even though they had no direct interest in it in the past find that because programs that they have a more direct interest in are being slashed, that it is more difficult with their own constituency to be supporting a program that applies to a relatively few number of States.

The other reason was that in this session of Congress we have had many new people in both the House and Senate. They do not understand the program and are susceptible to some of the arguments that are being made about the expense of it, about the propriety of the Government supporting a program for a product on one hand and on the other hand advising against the use of that product. So we have had to do a tremendous education job with our colleagues. We fought off the attacks this past year and they were more severe than ever. On the Senate side, one amendment that would have crippled the program, came late at night after we had disposed of two or three others on the last day of the session. It took everything I guarantee you that we could do to defeat that amendment and then by one single vote. Had it not been for Senator Helms and the majority leader Senator Baker, I must say in the last few minutes we would have lost that particular vote. I just point that out to say that the attacks are stronger. We have a more difficult time because of the budget situation we are operating under.

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[1] See p. 267 for the letter from Representative Hopkins.

One of the things used against tobacco has always been the expenditure or potential expenditure of the Federal Government. We know, of course, that within the 40-year history of the program, it expended something like $57 million, which is miniscule in comparison to every other program the Federal Government takes.

In the debate in the House side it became apparent something needed to be done to ease some of the opposition. They unanimously accepted an amendment to require that the program be operated at no cost to the Government. It has been such a minor cost that it was not anticipated that substantial changes will be necessary to achieve that objective. Thus, the House amendment was accepted in Congress and now is the law of the land.

I might point out, also, other actions already taken to reduce any potential cost or possible cost of the program. As you are aware, first, the grading and inspection fees were shifted to the grower. The farmer now pays those costs rather than the Government paying them. The interest rate that CCC charges to the producer co-ops was increased to equal the costs of money to the Government to eliminate that cost. That was done by regulation prior to the battle we are confronted with at present time. Once the amendment was passed, the Secretary of Agriculture was instructed to do what he could do by regulation under the present law to reduce potential costs, and then to suggest such legislative changes that may be necessary to make sure that the program operated at no cost to the Government. Well, he did make some regulatory changes, permitting the co-ops again to charge a larger fee, transaction fee, which is used to pay their operating costs. Then he suggested that legislatively two things needed to be done. One would be the establishment of a cash reserve, that would build up to be available in the event that any crop taken in had to be sold at a loss by the producer co-ops at a later time; and, also that he be given authority to adjust the support level on various grades of tobacco that might be in surplus at a given time, thereby reducing the amount that would go into the pool that would be necessary to sell, or that might sell, at a loss. Also, I failed to point out, the regulation change that would give the co-ops the authority to take gains from any one crop and hold it to offset losses against other crops.

Those are the suggestions that have been made. Senator Helms and I and others, realize that we need to be very careful in bringing any kind of tobacco legislation to the floor in Congress. We need to accomplish what has to be accomplished and will be very cautious about going much further. We needed to know from everybody connected with the crop, the growers, the warehousemen, the manufacturers, processors, exporters, what their views are about these various proposals. Consequently these hearings have begun. We recognize that the immediate interests of all of groups is not always precisely the same. Nor are the problems in the burley production areas or the Fire-cured areas, or the Flue-cured areas precisely the same. We want to make sure that we have a package that everybody can agree to because unity is absolutely essential in getting a program successfully through Congress. We want to cover every aspect of whatever proposals may be put forward.

There is one other element, and that is that it is not just those who oppose the program because of costs, and who could reasonably expect to be eliminated by making it a no cost program, that are opponents of the program. There are those that oppose it because of production controls which we recognize as being absolutely essential to have a working program. And, there are those who say that they are contrary to the free enterprise system. So we have to be defensive there. You saw on the peanut battle and other battles that there are those who don't like the allotment system and the manner in which allotments are leased, or owned, or traded, or whatever. It is a question of whether those issues ought to be addressed and, if so, how. With all of these things facing us and a desire to progress, Senator Helms started immediately, and hearings have been held in North Carolina and South Carolina. I went to North Carolina to attend the hearings there. There have been other hearings in Kentucky, across the State, and twice in Lexington. And, we will probably hear more testimony in Washington, and finally come with what we hope will be an appropriate and agreed to package.

So that is the background of where we are. I have said many times that I agree with the old adage "if it ain't broke, don't fix it," and the tobacco program is probably less broke than any program that the Federal Government has had and it is something of a paradox that we are here dealing with it. We do have a mandate, however. I think that anything that we can do to eliminate some of the opposition will be helpful. While we will never eliminate all of it, eliminating some of the ammunition they will use will strengthen our hands in dealing in the future with the program. And, it will help us preserve it. With that, if Senator Helms has no further comment at this time, we will begin with our first witness today, the Honorable Alben W. Barkley, the Kentucky Commissioner of Agriculture.

STATEMENT OF HON. ALBEN W. BARKLEY, COMMISSIONER OF AGRICULTURE, STATE OF KENTUCKY

Commissioner Barkley. Mr. Chairman, Senator Huddleston, I came prepared with welcoming remarks and since those have already been said I only wish to speak briefly to you.[1] Back in 1933, Senator Helms, whether you are aware or not, I think my granddaddy was in Dee Huddleston's seat, and he had a real input into bringing the tobacco program to what it was then. His interest was the same then as what our interests are today, and I speak to you in the same sense that Jim Graham of your home State would speak to you. Of course, not as eloquently as Jim, but the tobacco program as it probably is in your State the only program in Kentucky that the farmer can rely on today. The farmers are in deep trouble in this State and in this Nation, and this program has been a successful program, and this program is the very

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[1] See p. 256 for the prepared statement of Commissioner Barkley.

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essence of family farming and the family community in this State, and what we ask of you all in Washington is to be very careful. We can't tell you how to run your business. We can merely make recommendations from here within the State, but please be very careful. I liken it to when I go out to fix the combine or fix the tractor, or what have you, when I go to tighten the screws I don't want to strip the threads. We don't want to strip the threads in this program. We want to touch it very carefully in hopes that we can see it continue. The people that follow me I know will have information that will be very informative. I appreciate your coming to Kentucky and take care of us, both of you, when you go back. Thank you.

The CHAIRMAN. Don't leave.

Commissioner BARKLEY. I am not sure I can respond to a whole lot of questions. I am getting used to them.

Senator HUDDLESTON. I can't fault you for that.

The CHAIRMAN. Commissioner, my late father-in-law was what they call a shoe drummer. He sold shoes on a wholesale basis in a number of States including Kentucky. He died 15 or 20 years ago at the age of 79. He came into Kentucky and he met a fellow named Alben Barkley. He liked him so there was this North Carolinian going all over the countryside in a one-horse surrey that he had rented, tacking up posters for your grandfather. Then I went to Washington in 1951 as an administrative assistant to one of the Senators and I had the pleasure of meeting your grandfather and as I told you earlier, he took me under his wing and I probably laughed at his jokes because he always had one or two. You come from a distinguished line and I can go back to North Carolina and tell Jim Graham that I saw you. Jim Graham is not one bit more eloquent than you are. I am delighted to meet you.

Commissioner BARKLEY. Thank you, sir. I assure you that I will come to North Carolina and tack up your posters if you will come to Kentucky and tack up mine.

Senator HUDDLESTON. Thank you very much. We have J. W. York, Deputy Director of the Tobacco and Peanut Division, ASCS, U.S. Department of Agriculture. Mr. York, we are pleased to have you here today in Kentucky and appreciate hearing your testimony.

STATEMENT OF J. W. YORK, DEPUTY DIRECTOR, TOBACCO AND PEANUT DIVISION, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. YORK. Mr. Chairman, Mr. Huddleston, I would like to take a moment and thank you distinguished Senators for coming here to Kentucky this morning to listen to comments and recommendations of the burley industry people. It may sound a little odd me welcoming you here, me being from western North Carolina, but my home county has both burley and Flue-cured and I spent 20 some odd years in the State of Kentucky working with burley tobacco, so it is very close to me. In order to save time I will just give a brief summary of the Secretary's recommendations since the report has been made a part of the record.[1]

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[1] See p. 256 for a reprint of the recommendations.

The Agriculture and Food Act of 1981 expressed the intent of Congress to the Secretary that the tobacco price support program be at no net cost to the taxpayer other than administrative costs. To achieve that objective the Secretary was directed to take by January 1982 such administrative action as is within his authority which he deems necessary. If such action would fall short of achieving a no net cost program the Secretary was directed to recommend to Congress by January 1982 any supplemental action the Secretary deemed necessary to achieve this objective.

Mr. Chairman I would like to announce at this time that there are a number of copies of this report back of this table that might be helpful for the people to get a copy so they can look over the report.

Senator HUDDLESTON. Is that the report you gave each of us?

Mr. YORK. Yes, sir.

Senator HUDDLESTON. I would like to recommend that everybody get a copy. This report gives an excellent description of the tobacco program. Beyond the problems we are dealing with right now, it is a good dissertation on how the price support program works, and we are making sure that all of our colleagues in the Senate get one.

Mr. YORK. This report outlines the administrative action which the Secretary is taking to achieve a no net cost program. The report also sets forth legislation which the Secretary believes is necessary to supplement such administrative action. The following assumptions were made in preparing this report: The no net cost mandate is effective beginning with the 1982 crop and excludes losses that the Department projects will occur on the loan inventory of the 1975 through 1980 crop. The term "administrative cost" means the cost of administering the tobacco program at the national level in Washington, D.C. and the Kansas City ASCS management field office, State and county ASCS offices, and the testing costs to assure the merchantability of loan collateral.

The term "no net cost" means that except for administrative expenses CCC will over a period of years incur no net loss in the operation of the price support and adjustment program. The administrative actions being taken by the Department are as follows: Allow producer associations through which price support is made available to producers, to increase the amounts deducted from price support advances made to producers. Amounts so deducted are used by an association to pay its overhead expenses. Additional amounts needed to pay such expenses are loaned to the associations by CCC. Increasing the amounts deducted will reduce the amounts loaned by CCC to the associations. Present regulations limit the overhead deduction to $1 per hundredweight. This limit is being removed to allow associations to establish a large deduction with CCC approval.

The second recommendation: Implement procedures whereby all or a portion of the net gain realized by a producer association from the sale of one crop of loan tobacco would be available to offset losses incurred by the association on other crops. Procedures for implementing the new policy will be developed in consultation with the associations.

The Secretary also made two recommendations for legislative changes. They are as follows: Establish a fee which would be collected

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from every producer marketing tobacco. This fee would be used to offset losses to CCC arising under the tobacco price support loan program. The second legislative change allows the Secretary to adjust, under certain circumstances, price support levels for the various kinds of tobacco. The inflexible support formula mandated by current law does not afford the Secretary discretion to adjust price support levels to compensate for changing economic and marketing conditions.

Mr. Chairman, that concludes my comments.

Senator HUDDLESTON. Thank you very much, Mr. York. I have a couple questions. Does the Department have a position on just exactly how this producer reserve will be held, where it will be held, who maintains control over it, and under what conditions?

Mr. YORK. Sir, as we stated in our report, that will be done in consultation with the association. We met with the Burley Association 2 weeks ago tomorrow and it hasn't been finalized.

Senator HUDDLESTON. You still have an open mind then on what we develop out of these hearings?

Mr. YORK. Yes, sir, and as far as collection under this procedure, the Department wants to leave it up to the association producers.

Senator HUDDLESTON. One other thing, the question relates to increasing the fees for the producer co-ops so they can pay their expenses. You do occasionally have periods when very little tobacco comes into the pool. So there would be very few transactions from which to extract a fee. And yet the costs of operating are still there. In such instances, would the co-ops still have the opportunity to borrow money from CCC, at no cost to the Government, of course, in order to meet its operating costs?

Mr. YORK. Yes, sir, and we strongly recommend to the Congress a grower fee to insure a no net cost program because, as you mention, when no tobacco comes under loan, then there is no fee collected for overhead expenses to operate the association.

The CHAIRMAN. Senator Huddleston, I would like to welcome my distinguished constituent from North Carolina here. Let me say that on election night 1980 I went to bed expecting that Dee Huddleston would be chairman of the Senate Agriculture Committee.

Senator HUDDLESTON. So did I.

The CHAIRMAN. The next morning I was chairman and when we got back to Washington there came the various recommendations for Secretary of Agriculture. Jack Block, of course, was the man we supported for Secretary and as soon as that became evident I extracted from him a commitment that not only would he support the tobacco program but that he would go to North Carolina and say so. As you may recall he did go and met with the North Carolina Farm Bureau Federation. I want to say that Mr. York has been cooperative and effective in working with us and I for one appreciate your coming here today. Let me ask you one question. What do you believe would be the best timing on the recommendations that will emerge from these hearings? Is it essential, for example, that we move this year?

Mr. YORK. Sir, in order to implement a grower fee for the 1982 crop, the Secretary would need authority, say no later than the first of May, because I am sure you are familiar with the system and I have heard this comment before: It takes about 6 weeks to get a blank sheet of paper through the system, therefore we would need to start by the first of May in order to provide this.

The **Chairman**. I asked you what the lawyers regard as a leading question because I want to underscore the necessity of our getting together and having some recommendations that will represent as much unity as possible from the grower States.

Mr. **York**. That's right.

Senator **Huddleston**. While I am not sure you made this clear in your opening statements, the interpretation of the mandate is that this is a prospective requirement. Any tobacco that is now in the pool, either Flue-cured or burley, does not come under the no cost provision?

Mr. **York**. That's right.

Senator **Huddleston**. We are starting with the 1982 crop.

Mr. **York**. That's right.

Senator **Huddleston**. We don't have to do anything with that. Thank you very much, Mr. York.

The **Chairman**. Just a minute. I see a hand back here.

Mr. **Sharp**. If I am allowed to ask one question. I understood you to say there is no guarantee on the 1982 burley crop if a program isn't adopted that is of no cost to the Federal Government. Now, yes or no?

Mr. **York**. I stated that we cannot assure a no net cost program without the authority to assess the growers a fee. The two administrative changes the Secretary has made will not guarantee a no net cost program. An example would be if no tobacco is bought on loan, then we would have no source of collecting the association's expenses and overhead.

Mr. **Sharp**. Is there no set guarantee for this year at present?

Mr. **York**. Right.

Senator **Huddleston**. Would you identify yourself to the audience?

Mr. **Sharp**. James Sharp. I have been in business all of my life.

Senator **Huddleston**. Your question is whether or not there is a guarantee that there is a price support program in place?

Mr. **Sharp**. But what he said there is not.

Mr. **York**. I didn't intend to, sir.

Mr. **Sharp**. What you said about the no cost program that the program has to be a cost this year, a rule would have to be adopted that there is no cost to the Federal Government.

Senator **Huddleston**. Let me say what we have got. We have got a permanent law on the books relating to the tobacco price support program. We also have a law that says it must be operated at no cost to the Government. I don't believe that they are in such conflict that there would be a program eliminated this coming year regardless of what happens, but the fact is we do have a mandate to develop a no cost program. We have to put in no cost somewhere along the way to satisfy the legislative requirement. We would make a great mistake if we didn't have it ready soon enough for the Department to administer, and, maybe more important, soon enough for the growers. We don't expect to get to a point of conflict—one law with another law, where one law says we have no cost and another says we have a program.

Mr. **Sharp**. But there is still a possibility, isn't there. Not a probability but there is a possibility?

Senator HUDDLESTON. No, I don't think it is something we are going to be concerned with. Thank you very much, Mr. Sharp. Let me say this. I know that questions will come to many of you as you hear testimony and we want to hear from everybody. We have assigned a time just before noon and before we close to hear from those that may want to ask a question and offer some suggestions. We will operate that way and you make a note of what you want to ask. You will have that opportunity at the appropriate time. It might also, be advisable if you advise some of the aides or the desk out front so we may call you and assure that you get that opportunity.

Let me now call to the microphones Dr. Milton Shuffett, vice chairman, department of agricultural economics, College of Agriculture, University of Kentucky.

STATEMENT OF DR. MILTON SHUFFETT, VICE CHAIRMAN, DEPARTMENT OF AGRICULTURAL ECONOMICS, COLLEGE OF AGRICULTURE, UNIVERSITY OF KENTUCKY

Dr. SHUFFETT. Senator Huddleston, Senator Helms, I am Milton Shuffett, vice chairman, department of agricultural economics, College of Agriculture, and my statement today is on behalf of the College of Agriculture at the University of Kentucky.

Tobacco is Kentucky's most important cash crop. We have 453 million pounds basic quota for burley in Kentucky which is shared by over 145,000 landowners. In addition, about 25,000 acres of Fire-cured and dark Air-cured tobacco quotas are held by 22,000 growers in western Kentucky. The value of our crops in 1981 amounted to nearly a billion dollars. Our most important cash crop is widely shared by our farm people due to the large number of quotas.

The college recognizes the contributions made by the tobacco program over the years to the producers, to the rural economy of our State and to the tobacco industry. Supplies have been reasonably well balanced to the needs and the costs have been very low. Tobacco is unlike other major agricultural commodities with respect to marketing. The individual producer has no market power while the buying industry tends to be much more concentrated. No futures market exists for tobacco and demand elasticity is very low. In the absence of production control-price support programs, the buying interests have no way of regulating supply to market needs except through highly variable year-to-year prices.

I appreciate the opportunity to comment on some issues that appear to be important in modification of the present program. I would emphasize that the college of agriculture neither advocates nor opposes changes that have been proposed or will likely be proposed at this and other hearings. Our role is to be available to all segments of the tobacco industry to evaluate impacts of proposed changes and to perform in an educational role in informing those affected by the changes.

The administrative changes announced by the Secretary of Agriculture Block on January 29, 1982, are in the process of being implemented. Legislative changes to establish producer marketing fees and to enable the Secretary to adjust price supports were also proposed. Other aspects of the program that may need examination are the tying of quotas to land based on historical production, the difficulty of entry for new producers, and the manner in which quotas are leased and transferred.

The fee system should be an effective method for building reserves to offset possible losses on tobacco taken under price support loans. A number of questions and alternatives should be considered in the establishment of new marketing fees. First of all, what would be the appropriate amount for a producer marketing fee? Should fees differ by types and classes and kinds of tobacco? Should fees collected be handled by grower cooperatives or pooled across cooperatives and kinds of tobacco? At what level of reserves should the collection of fees cease? Should the fees be used solely to offset losses of producer associations as opposed to marketing and administrative costs?

In the area of price supports tobacco producers view supports as a price protection mechanism assuring price increases related to costs of production. Leaf dealers on the other hand see increasing price supports as a detriment to competition in a growing world market for leaf tobacco. The increased imports of cigarette leaf and scrap in recent years has been encouraged by cheaper prices of offshore tobacco compared to domestic leaf. Presently as much as 20 percent of burley used by manufacturers in this country is offshore tobacco.

If the method for determining price supports is to be modified, again there are questions I think need to be answered.

1. Should price supports be related to changes in the estimated costs of production rather than the present method of relating changes to the parity index?

2. Freezing price supports for some period of time is another alternative.

3. Reducing or eliminating increases on certain grades that are in surplus.

4. Finally, should a uniform formula apply to all kinds of tobacco to retain the historical price relationships between kinds that we have at the present time?

Any change in the method of determining tobacco price supports will impact differently on producers, on leaf dealers, and on manufacturers. If any change in the rate of price supports is to be made, it is critical that impacts be carefully and objectively assessed so that the industry in total will be benefited by the change.

Now in the area of quotas: Those now owning land with tobacco quotas have purchased the quotas and the investment in quota represents a cost of production to the holders. Only a very limited number of quota holders today were the original recipients when the tobacco programs were initiated nearly 50 years ago, in 1933. Others have purchased tobacco quotas with their land. Value of the quota results in lease prices when quotas are transferred. Concern about lease prices by those interested in expanding tobacco production has become an issue in recent years. Some landowners with quotas can no longer produce tobacco due to age, disability, lack of facilities, or land being used for nonagricultural purposes, or other reasons. Should modifications be made to permit present quota holders who have invested in quotas but who no longer can or want to produce to make the quotas available to those interested in expanding production? Among the alternatives that might be considered and evaluated in the area of quotas and leasing are: (1) Providing for leasing over wider geographic areas and in larger amounts by individual producers; (2) Sale of quotas within specified geographic areas such as adjacent counties; (3) Requiring production of quota on the land where it is held on a periodic basis, say once every 3 years; and (4) Elimination of quota from land that is presently a nonfarm entity, such as an airport or industrial park.

These and other alternatives should be considered, evaluated, and changes made that are in the best interests of the tobacco industry in the years ahead.

I would reiterate and emphasize that the tobacco program over the past half century has transformed tobacco production and income from a highly variable to a stable and major component of the agricultural economy in the producing areas. The present hearings and impending change in the tobacco programs has an opportunity, it seems to me, to improve on a most successful commodity program while eliminating cost to taxpayers from program operation.

I speak for Dean Charles Barnhart in pledging the research and extension facilities of the college of agriculture to your committee and to all segments of the industry as you work together to devise a tobacco program that will meet the present criticisms and provide the trade with amounts and qualities of tobacco needed in domestic and foreign markets at no program cost to the U.S. taxpayers. Thank you very much.

Senator HUDDLESTON. Thank you very much, Dr. Shuffett.

The CHAIRMAN. Doctor Shuffett, I am very much interested in your testimony. If I may I would like to go back to your statement and the no cost aspect of what we are trying to put together. Has your department made any study or any determination of this or does it have any recommendation as to whether all program costs should be paid by the farmers?

Dr. SHUFFETT. Sir, I have my personal views on this. It seems to me that some areas of what we define as program costs are essentially administrative costs that would be paid for out of the U.S. Treasury in the case of tobacco as they are in other commodities. For example, the administration of producer co-ops seem to be an area of implementation of a program that one would argue that producers of other commodities have these administrative costs covered and if this is to be covered in tobacco it seems to me it might be a little different.

The CHAIRMAN. Of course, that is what you and I would like but I am wondering about the reality of it.

Dr. SHUFFETT. I think that in addition the producers of burley tobacco and dark tobacco in western Kentucky certainly are willing to assume the so-called costs in order to maintain a program as we feel the program is that important to the industry.

The CHAIRMAN. One of the points you made, and one of the judgments we have got to make, you covered it in item 3 of your statement, should fees collected be handled by grower cooperatives or pooled across cooperatives and types? Do you have any personal opinion in response to your own question?

Dr. SHUFFETT. I guess basically I feel it would be preferable to handle these funds by grower cooperatives. At the same time it would bother me, I think, for growers of dark tobacco in western Kentucky, if the fees that they paid were to have to be used to cover the costs of burley growers in central Kentucky. This would seem inappropriate and inequitable, but I guess, the mandate of Congress being what it is, if we lose money anywhere then maybe we will lose the program and I guess, after autopsy, the one most directly affected really doesn't have an interest; and so I can see issues on both sides is what I am saying.

The CHAIRMAN. Thank you very much.

Senator HUDDLESTON. Ray Mackey, president, and Jim Stokes, vice president and chairman of the tobacco committee, Kentucky Farm Bureau Federation. All right, Mr. Mackey, you may proceed in the manner you desire.

STATEMENTS OF RAY MACKEY, PRESIDENT, AND JIM STOKES, VICE PRESIDENT AND CHAIRMAN, TOBACCO COMMITTEE, KENTUCKY FARM BUREAU FEDERATION

Mr. MACKEY. Thank you, Mr. Chairman, Senator Huddleston. The Kentucky Farm Bureau Federation, with more than 217,000 members, including a vast majority of the tobacco producers in Kentucky appreciates the opportunity to present views on some of the serious problems facing the tobacco industry.

At the outset, we want to express our sincere thanks to the members of this committee and to the other loyal Members of Congress from the major tobacco-producing States for saving the tobacco price support and control program from destruction last year.

It is apparent, I am sure to everyone, that if we should once lose the tobacco program, this State and several others in the Southeastern part of the United States will suffer extreme economic losses and an eroded revenue base.

We recognize that Congress in 1981 expressed its desire that the tobacco price support and control program be operated at no net cost to the taxpayers other than for administrative expenses. This was adopted in spite of the fact that the tobacco program has been by far the least costly of all major commodity programs.

Tobacco producers are alarmed and recognize the seriousness of this directive that changes be made to satisfy some of our severest critics. After a lengthy discussion by the more than 500 voting delegates attending our State annual meeting in December, the following resolution was unanimously adopted:

> It appears likely that these attacks will continue unless the majority of Congress can be convinced that sufficient safeguards exist or are adopted to assure the continued operation of the program at little or no cost to the Federal Government. We, therefore, recommend that Farm Bureau leadership study all aspects of the current situation, including the provisions of the tobacco program, and cooperate with Members of Congress and others to preserve our current program in as near the present form as possible and to improve its effectiveness if possible.

We have examined the recommendations of the Secretary of Agriculture for achieving a no net cost tobacco program. We find that with some minor changes, and one major change, we essentially agree with the two administrative recommendations and the two suggestions for legislation. For the purpose of this statement we shall treat each recommendation separately.

ADMINISTRATIVE ACTION NO. 1

Recognizing the increased overhead expenses for handling loan tobacco, we support increasing the amount permitted to be deducted from price support advances. We recommend, however, that a new limit of $2 per hundredweight be established at this time and that the lid not be entirely removed as suggested in the Secretary's recommendation. We further recommend that the tobacco be supported at the full support level and the rate not reflect the overhead deduction as has been done previously. The deduction permitted for overhead expenses should then be withheld by the warehouse.

ADMINISTRATIVE ACTION NO. 2

If this recommendation does not conflict with Federal or State co-op laws, we agree that beginning with the 1982 crop, producer loan associations should be permitted to retain the earnings from the sale of loan tobacco with the funds from such earnings held in escrow and used exclusively to offset losses from sales of loan tobacco in subsequent years. We further recommend that earnings from investing the funds be used solely for the purpose for which the funds are collected. When these retained earnings, in combination with producer fees, reach a level deemed sufficient to safeguard the Commodity Credit Corporation from losses further earnings should then be allowed to return to producers as is currently the case

LEGISLATIVE RECOMMENDATION NO. 1

With certain limitations, we support the collection of a reasonable fee from every producer marketing tobacco under the program. Funds collected should be for the sole purpose of offsetting losses that may occur on the kind of tobacco being handled by each producer loan association. This should not apply to any tobacco already under loan. We recommend that the fee be set at no more than $1 per hundredweight for the 1982 crop and not be adjusted upward for subsequent years unless losses exceed collections. We further recommend that such collections be discontinued when the fund, in combination with retained earnings, has reached a level that can be presumed to offer reasonable assurance that Commodity Credit Corporation loans are safeguarded. Any additional ceiling should be established at an amount equivalent to 3 years' collections, after which collections should be discontinued until the fund falls under the ceiling. We also recommend that earnings from investments of these funds be added to the fund and used for no other purpose.

LEGISLATIVE RECOMMENDATION NO. 2

We recommend that the Secretary be given authority, on advice of a producer advisory committee, to adjust price supports on grades that have accumulated in excessive supply. Those adjusted price supports should not be less than the supports for the previous year plus 65 percent of what the increase would be under the present formula. This authority should not be granted for grades not in surplus, and a reasonable formula for determining excessive supply should be established. We oppose freezing price supports or adjusting price supports downward for grades not in excessive supply. We further recommend that this procedure be reviewed by a producer advisory committee at least every 3 years.

In addition to the foregoing, we would like to recommend that the producers of dark tobacco types 22, 23, 35, and 36 be given authority to change from their acreage method of controlling production to a poundage program similar to that currently used for burley tobacco.

In the sixties, Flue-cured producers recognized the growing difficulty of managing production under an acreage control program and were given the privilege of changing to an average-poundage control program. In the seventies burley producers also found it necessary to change to a poundage control program. Many producers of dark tobacco feel that it would be beneficial if they too were given the opportunity to change to a poundage control program.

We, therefore, specifically recommend a program be adopted for the four dark tobacco types which would use the following criteria:

(1) The national quota should be set at the current acreage allotment times the average yield for the 4 highest years out of the last 5. For example, using 1977–81 data, the quota would have been 1,810 pounds times 26,345 acres for Fire cured, and 1,828 pounds times 13,371 acres for dark Air cured.

(2) The individual farm yield history should be established by using the best 4 out of the 5 most recent years at the time that the program is started.

(3) The maximum per acre yield on any farm should be 3,000 pounds.

(4) The program should continue to provide for unlimited leasing and sale of allotments within county lines.

(5) Use of the same carry forward procedure that is provided for in burley.

(6) Because of the difficulty of crop estimation, producers should be permitted to market 110 percent of their quota as provided for in the burley program.

(7) The poundage program should go into effect only after being approved by a majority of producers voting in a referendum. The program should permit such referendum to be held as a second question at the same time a regular referendum is held or at any other time the producers desire it during the 3-year period that the tobacco program is in effect.

Thank you again for permitting us to present this statement. If there are any questions, Mr. Stokes will be happy to answer them.

Senator HUDDLESTON. Mr. Stokes, do you have any comments to make before we go into the question part?

Mr. STOKES. Yes, Senator, I have one I would like to address myself to about the increased overhead expenses that the loan associations have. As is now occurring, the loan associations get, I think, 1 cent a pound on each pound of tobacco that goes under loan, and it is our contention that maybe that should be increased to no more than

2 cents. But my comment is in this regard. Heretofore, you have tobacco supported at $1.65. In order for the loan association to get their cent a pound, I think the Commodity Credit or the Department lowers that from $1.65 to $1.64. Actually, the tobacco is not supported at the lower rate. Now, it is our contention that to solve this problem, maybe this tobacco that goes under loan should be collected at the warehouse on tobacco that is actually sold under loan. This way, all of the rest of the growers would get the benefit of the support price rate and I think any consideration you could give us on that would be appreciated. Also, we feel that only advantage is that the buying public gets the benefit of lowering taxes, lowering your support price.

Senator HUDDLESTON. Would that assist in the question where we have a limited number of transactions and the co-op may not receive an adequate amount of money to operate under those kinds of yields? Would your system change that in any way?

Mr. STOKES. No; you would still have the same amount of money going through the loan association. All we are asking is that that tobacco that has actually sold under loan, that that money be deducted at the warehouse and given to, say, Commodity Credit or to the loan association and as that is now done, if we come up with 2 cents overhead expense to be deducted and the tobacco is to be supported next year at $1.85, actually when it gets back to the growers it is going to be supported at $1.83, and the only people that get an advantage of this would be the buying public is what we are saying.

Senator HUDDLESTON. Do you feel like the various producer co-ops should operate more or less as separate entities under this program for the purpose of developing the reserve, and should a reserve be developed and reserves assigned to be held by individual co-ops to handle their own transactions and liabilities?

Mr. STOKES. Yes; I think each kind or each type of tobacco should be on its own merit and I am not saying this because Senator Helms is here but burley does not have any tobacco on loan and I think the burley producers would not think kindly of having a checkoff fund to maybe pay for something for Flue-cured problems that they are having.

Senator HUDDLESTON. You have indicated there ought to be some sort of formula to determine just what that fund ought to be and when it reaches that level that it would not be necessary to deduct further money?

Mr. STOKES. We think it should be no more than 1 cent a pound and we think that we should get on with the program this coming year and we should show Congress that we mean to back up what we are saying and we have the funds to prove it.

Senator HUDDLESTON. I envision the reserve will work much like the reserve for national institutions that are required to maintain a certain percentage of reserve as a potential against losses. Such reserves utilize history, the amount of exposure, and potential losses, to determine the proper formula in deciding what the remedy ought to be.

Mr. STOKES. As Ray said, our growers are pretty specific on this point that these funds be used only to control and to pay off the losses that we have and for that area only.

Senator HUDDLESTON. Do you also feel the reserve should be held by each individual producer co-op and not by a Federal department somewhere in Washington?

Mr. STOKES. Yes, I think so. I think the grower loan associations should be the ones to control the funds.

Senator HUDDLESTON. Senator Helms.

The CHAIRMAN. Let me digress on the immediate problems and go back to the problem of costs. I asked John Sledge, your counterpart in North Carolina Farm Bureau. I hope we can have a commitment among ourselves to have as many people as possible participating in calling the hand of the people who misrepresent the nature of the tobacco program. I heard on one of the network programs just last week about the tobacco subsidy. Every time I speak to the Farm Bureau Federation in North Carolina or any other farm bureau, I start off saying to them, repeat after me: "There is no tobacco subsidy." Now, I hope there can be an alliance of farm leaders, such as yourselves, in all the tobacco States to call the hand of these people who misrepresent a program that produces $2½ billion a year in exports, that produces $2 billion just for the Federal Government in taxes every year, and about $4 billion for State and local governments. I have often said I wish we had 100 such Federal programs like the tobacco programs, and we need the help of everybody. Now, let us assume any of you here, Dan Rather or whoever, refer to tobacco subsidy. I hope that in a very short way that you will contact the television station, no matter how brief the reference is and say, now this is enough and say, now look, we want that corrected, and if enough people do that enough times, these yo yo's on television network or New York Times or Washington Post and all of the rest of them will stop misrepresenting the tobacco program. So I hope we can have an agreement we are all going to participate in this sort of thing and end this.

Now, much has been said about Doctor Koop and his statement on the Mickey Mouse thing on tobacco taxes. Of course, Dr. Koop is required by law to make his findings public and now the difference between Dr. Koop and Joe Califano is that Joe Califano wanted to destroy the tobacco program. Dr. Koop, on the other hand, has said there are two different things. The health issue is over here and the farm program is a different matter. They can argue about the health thing. I am not going to get into that. I am no dog and I am not going to fight but when it comes to an economic program so vital to 276,000, oh my, I become indignant when I see it misrepresented, and Dee Huddleston and I have talked about this so many times, and we need the cooperation of everybody. When you see or hear people misrepresent the program, get up on your hind legs and holler about it because Dee and I will be there and your testimony will be there in Washington, D.C.

Mr. MACKEY. Senator Helms, I couldn't agree with you more. Just this last week I answered an editorial on one of the local TV stations. In order to do that you have to get permission and go through the channels and all that and it takes about a day to put in a minute and a half response. But we are doing that and the people need to be doing that. I couldn't agree with you more.

The CHAIRMAN. I mentioned John East. Mr. Galloway is representing Mr. East here. John was elected in 1980 and took office in 1981. The minute he became a Senator he began going to the office of each new Senator and explaining the program, and you would be surprised at the vast majority of them who didn't know pea-turkey about the tobacco program until we did an educational thing that we have got to do and then we won't have all of these programs that we have got to thrash out with them because they will have a better understanding of the program. Thank you, Mr. Chairman.

Senator HUDDLESTON. Thank you. Joe McDaniel, president, and Bruce Strader, first vice president, Burley Tobacco Growers Cooperative Association. Gentlemen, welcome. We are glad to have your testimony. You are intimately and daily involved in the program itself. You may proceed.

STATEMENT OF JOE McDANIEL, PRESIDENT, AND BRUCE STRADER, FIRST VICE PRESIDENT, BURLEY TOBACCO GROWERS COOPERATIVE ASSOCIATION

Mr. McDANIEL. Mr. Chairman, Senator Helms, and gentlemen of the committee, this paper was prepared in response to the recommendations of the Secretary of Agriculture on arriving at a no cost tobacco program.

I am Joe McDaniel of Cynthiana, Ky., and I am president of the Burley Tobacco Growers Cooperative Association, 620 South Broadway, Lexington, Ky. This organization, incorporated in January 1922, has a creditable history of service and usefulness for 60 years to the burley tobacco farmers of this country. Its more recent history covers a period of 41 crops during which time it has compiled a record of under contract with Commodity Credit Corporation in administering the price support program for tobacco farmers that excels all other farm organizations so engaged.

The recurring attacks on tobacco and the programs (production control and price supports) have culminated in the Congress directing the Secretary of Agriculture to recommend administrative and legislative actions that those programs for tobacco "shall be carried out in such manner as to result in no net cost to the taxpayer other than such administrative expense as is incidental to the implementation of any commodity program."

Under administrative action: By the 1938 act of Congress as amended from time to time:

> The Secretary of Agriculture is authorized and directed to make available through loans, purchases, or other operations, price support to cooperators for any crop of any basic agricultural commodity, if producers have not disapproved marketing quotas for such crop and further, the Commodity Credit Corporation is authorized to utilize its capital funds and other assets for the purpose of making the payments authorized in this subsection and to pay administrative expenses necessary in carrying out this subsection.

The summary of actions and recommendations by the Secretary of Agriculture contains a definition of administrative expense as follows:

> The term "administrative expense" means the cost of administering the tobacco program at the national level in Washington, D.C. and through the Kansas City ASCS. Management Field Office, State and County ASCS Offices, and the cost of testing tobacco to assure the merchantability of loan collateral.

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That definition is not responsive to the mandate of the Congress and the Secretary should be prevailed upon to expand this definition to include the administrative expense of the association because it functions administratively as contemplated by the statute; and because it does not have the money to pay that expense.

For one example, preparatory to the opening of the tobacco market and in order to comply with its contract with Commodity Credit this association must employ about 50 people. This association becomes obligated to pay those people for the season. If the association receives no tobacco it receives no money and it must meet its obligations to those people out of the small reserve it has accumulated.

For the purpose of building a reserve this association's membership agreement authorizes the deduction of 1 percent of the gross sale price of tobacco sold, but that right has been denied by CCC except in two or three instances under the terms of the loan agreement which supersedes the membership agreement. Other associations have been allowed to operate on a vastly different rule, as we are informed, with reference to the accumulation of a reserve.

Therefore, the first recommendation for administrative action made by the Secretary is objectionable and will not work because deduction from the price support of a dollar, or dollars per hundred will not be productive of any money to the association unless tobacco is consigned to and received by the association.

Moreover, the association does not make a deduction from the loan rate. That action has been done by Commodity Credit after loan rates per grade are agreed upon, and when the Burley Association requisitions money, Commodity Credit credits its administrative cost account with the dollar so withheld. If the deduction of the dollar is insufficient to pay administrative costs, CCC makes an additional loan against the tobacco. If no tobacco is consigned under loan to the association the withholding of the dollar from the price support of each grade had had the effect of reducing the price protection to the farmer by that amount.

Notwithstanding the authority by law for Commodity Credit to assume payment of all advances to farmers and administrative expenses necessary in carrying out the price support program. the association I speak for has used its gains on tobacco crops handled to pay losses on previous crops during the period 1967 to 1974. The practice was discontinued on order of the U.S. Department of Agriculture. It should be resumed and thus implement the second recommendation of the Secretary for administrative action.

Under the heading "Legislative Action": The problem of administrative costs and losses on future crops of tobacco is readily solved by the collection at the sales warehouse of a fee on each pound of tobacco recorded on the grower's marketing card, or on each pound of tobacco sold on that card. The latter basis of collection would be easier for the farmer who did not produce and market the full poundage recorded and permitted. The fee could be imposed from year to year until such time as it would appear to the Secretary that the fund so created would be sufficient to meet anticipated administrative costs if not included in an expanded definition and loan losses. At such time it could be suspended and then resumed when necessary.

The fund of money created by collection of the fee at the auction market, or from the buyer if the tobacco be not sold at auction, could be held in trust either by the association, if it be given a tax exempt status, or by CCC failing such tax status in the hands of the association. This fund by the trustee would be expended to reimburse CCC for administrative costs advanced to the association if the Secretary cannot be prevailed upon to expend his definition of administrative costs; and, further, any loss incurred by reason of the nonrecourse loans to the grower members of the association.

The one fund accumulated by the collection of the one fee at the time of sale of the tobacco can be used to insure a no net cost to the taxpayers.

The Secretary has authority to adjust loan rates and that authority should not be enlarged. Since the beginning of the price support program this association, in conference with representatives of the grading service, the trade, the Tobacco Division of the Department of Agriculture and the Auction Warehouse Association, has settled upon loan rates which reflect values according to uses of the different grades of tobacco and the market value of such grades. The association submits those loan rates to the Secretary who approves, disapproves, or changes those rates. The practice thus established and followed for 41 crops should be continued.

The second legislation recommendation of the Secretary is objectionable because it could easily result in substitution in the blend of other types of tobacco for burley. The Secretary's actions under broader authority could well result in inordinate and unnecessary reductions in the support price for certain grades of tobacco which could make those grades very desirable price wise, and considering the manufacturers modern technology, for substitution for the higher price supported grades of burley tobacco in the blend. This association desires to have an effective voice, because of its proven competence, in setting loan rates for the different grades of burley tobacco.

The preface to the Secretary's recommendations contains the comment on burley:

> No losses of principal and interest are projected for burley tobacco because of its expected continued strong demand. Future costs to the program could occur because outlays for association overhead are relatively fixed and are now being absorbed from association reserve funds which were accumulated from previous gains.

The emphasized portion of this is inaccurate. Overhead costs are not being absorbed by the association and never have been.

The supply of burley tobacco, historically, is erratic and will continue to be so. Notwithstanding the present alleged shortage, the 1982 crop can very well be of such size and be supported at such a price level as to result in large receipts under loan. In anticipation of a substantial, or even a large inventory in the hands of the association, the fund of money to insure a no net cost to the taxpayers should begin to be collected with the 1982 sales, be they at auction or private treaty.

Respectfully submitted.

I would like to say in further comment, gentlemen, the Burley Association has administered the price supports for 41 years without cost to the taxpayer. This summary of operation which I think maybe you Senators have shown that the Burley Association has borrowed from Commodity Credit $1,178 million over the 41 year history. We have paid back to Commodity Credit over the same years $149,178,000 in interest plus all the loans. We have received over that period 1,750 million pounds of distressed tobacco, and in addition to this payback we have distributed to the growers that had tobacco under loan a total amount of $32 million. Now, we were asked to come up with remedies or corrections to our contributions to the overall no net loss. We have no things to point out where we have contributed to no net cost. As long as we have to take tobacco on loan we have collateral with Commodity Credit we can borrow on, and we have been successful with an oversupply, in fact, until the last 2 years as a result of a drought and we have no supply of tobacco in pools. But I think the suggestions that have been presented in this testimony, if enacted, will insure a no net cost to the taxpayer in the years to come. Thank you.

Senator HUDDLESTON. Thank you, Mr. McDaniel, and it is our impression and I underscore "our contention" that the tobacco program is not a subsidy program. We are happy to have you to justify our statement. Mr. Strader, do you have any comments to make?

Mr. STRADER. Mr. Chairman, Senator Huddleston, as a grower and vice president of the Burley Association, we want to thank you for what you have done to maintain our tobacco program to the present time. You can be assured that a fee from the grower to carry out the support price program at no net costs to the taxpayer has the wholehearted support of the grower. We think the fee will be reasonable for the benefit we will receive from the support program. Thank you.

Senator HUDDLESTON. You gentlemen have made several points. We also saw immediately that perhaps the Department was cutting off too quickly what they accept as administrative costs of the program. The Burley Crop Association, which operates as an extension of the CCC, is under contract with the CCC. So there is some justification then that those are administrative expenses, and the calculation ought to extend to the actual administrative operation.

Mr. MCDANIEL. We feel that is a legitimate expense as well as the ASCS offices because it is vital to the operation of the overall program.

Senator HUDDLESTON. You still have the requirement of establishing a reserve fund to take care of any losses that occur in producing a crop. We are exploring that, I might say, and certainly have it under advisement. It is actually a matter of interpretation of what the no cost mandate is. The Department made certain assumptions and certain interpretations that may or may not be correct. We will certainly look at that carefully. Senator Helms.

The CHAIRMAN. Thank you, Senator Huddleston. Mr. McDaniel, thank you for your statement I think your restrospective view you have taken and I will say to you that this is the kind of deal that we are going to work out, that we must work out, and so may I ask one question about your statement here on finances. What are your reserves?

Mr. MCDANIEL. They are not deplorable but during the last two or three crops we have not collected any sizeable amount but then we collect that 1 cent with the grower agreement.

The CHAIRMAN. I understand. I am referring to the erratic crops. Do you have any off-the-top figure?

Mr. McDANIEL. I think around $3.5 or $4 million? I don't recall exactly what the figure was.

The CHAIRMAN. $3.5 or $4 million, that's a ballpark figure. Thank you, very much.

Senator HUDDLESTON. Thank you gentlemen. Now we have M. R. Nelson, John Logan, and Ernie Hillenmeyer representing the Burley Leaf Tobacco Dealers Association. Gentlemen, you may proceed in such order as you have already determined. We are delighted to have you with us.

STATEMENT OF MORRISON R. NELSON, CHAIRMAN, BURLEY LEAF TOBACCO DEALERS ASSOCIATION, ACCOMPANIED BY JOHN LOGAN AND ERNIE HILLENMEYER

Mr. NELSON. Thank you, Mr. Chairman, Senator Huddleston. We were also expecting a member of our group from Tennessee to come. He is not in the room. I am Morrison Nelson, chairman of the Burley Leaf Tobacco Dealers Association. Our members buy for our U.S. and foreign customers about 55 to 60 percent of the burley crop. We export almost all of the unmanufactured burley sold overseas.

We are grateful for this opportunity to express our views on needed changes in the tobacco program. We also thank and commend the Members of Congress who recently saved the program so that we now have a chance to improve it.

We are very concerned that so many people in the burley area have the attitude "if it ain't broke, don't fix it." Make no mistake. The tobacco program is broke. Our association has tried to deliver that message for several years now to anyone who would listen. Almost nobody did. We did not need a close vote in Congress to tell us the program needed changes. The present provisions of the program have discouraged domestic use, encouraged imports, and curtailed exports. They have restricted the growers' ability to produce, thereby reducing his income, and they have increased his production costs due to high lease prices. The figures about our loss of market share in world burley production and trade are in the record many times over. The program is sick. The burley grower just isn't feeling any pain right now.

The blue mold situation is an example. On this day in March, there is not blue mold evident anywhere in the burley belt. But the blue mold warning system has consistently reported that the disease is prevalent throughout Central America with a serious outbreak in Mexico for the first time since 1964. We know blue mold has been widespread in the U.S. burley area for 3 years. Right now is the time every burley grower should prepare to protect his crop from blue mold. When you see it, it's too late. The price of a gallon of Ridomil is insignificant compared to loss of a crop. The time for action is before disaster strikes.

The same is true for the tobacco program. Right now is the time to protect it and make sure it is healthy. Conditions are right in Washington. Legislation will be passed. It must not be a Band-Aid when surgery is needed. Elimination of cost to the taxpayer will not be enough. Antiprogram forces will not tolerate the allotment monopoly system. This point of attack must be removed. The only way to guarantee that the program is cost free to the taxpayer or whoever will now assume the cost burden under the congressional mandate is to modify the price support formula so that our tobacco can be priced competitively and sold in the world market where consumption is increasing, and not stockpiled under loan.

In the press release concerning this hearing Senator Helms is quoted as saying:

> We need to look at possible adjustments in the price support loan formula in order to make U.S. tobacco more competitive in the world market. We also need to examine the manner in which tobacco allotments are leased and transferred. The no cost program directive of the 1981 farm bill is also an important consideration.

We will speak to these points.

Adjustments in the price support formula—we recommend the following: One, price supports for the 1982 crop should be stabilized at the 1981 level and support prices for the 1983 and subsequent crops should be established by the Secretary at 115 percent to 130 percent of the cost of production as determined by USDA, excluding land management and lease costs.

Two, the Secretary of Agriculture must be given the authority to adjust, under certain circumstances, price supports for various kinds of tobacco. He has recommended this in his report to Congress. This authority should allow price supports for grades in excess supply, but also allow adjustments to discourage production of undesirable tobacco. Otherwise growers can prosper by producing undesirable tobacco knowing that the pools will have to take it at a high price. This happened in Flue-cured with the 139 varieties in the fifties and again with low-grade down stalk tobacco more recently. This authority should be used to prevent too great a price spread between various types of tobacco that might lead to substitution of one type for another in blends. Any potential for losses in future loan stocks would be virtually eliminated if such authority or flexibility is granted the Secretary.

Adjustments in the allotment system—adequate supply of U.S. burley is a basic premise of a sound program. To produce this supply and to forestall legislation eliminating allotments entirely, quotas should be in the hands of actual growers. We support the following:

First, sale of quotas within counties provided the buyer has sufficient tillable land. This would enable allotment holders who do not choose to grow tobacco to recover their equity. Priority for the purchase of a quota should be given to a producer who has been leasing that quota.

(2) Reallocation of unproduced quota. If an allotment holder fails to produce 75 percent of his quota for 3 consecutive years, the unproduced quota should be forfeited to be redistributed to active growers within the county. Some percentage of nonproduced quota should be made available to new producers to avoid the monopoly charges.

(3) Leasing within contiguous counties with the objective of getting production in the hands of actual growers.

(4) Removal of the 15,000-pound leasing limit.

These changes would all be for the benefit of the actual tobacco growers and would help them produce an adequate supply. Availability of high quality tobacco at a competitive price is a serious problem. The Flūe-cured effective quota which was 1,572 million in 1975 is down to 979 million in 1982. No wonder those tobacco grows want to raise Maryland. The burley effective quota is down for 1982 even though the basic quota was increased.

This whole area of allotments is politically sensitive. But it is essential that the decisionmakers adjust the program to help tobacco growers. That is its intent. It is not a social security system for widows and elderly, a source of income for absentee landlords, or a welfare check for part-time farmers who don't want to spend time in a tobacco field.

Adjustments to achieve a no cost program—on this subject our association finds no fault with the recommendation of the Secretary of Agriculture in his report to Congress. We do favor loss insurance funds remaining in the hands of the various cooperative loan agencies so that each kind of tobacco supports its own program.

This may be our last opportunity to adjust the tobacco program to insure that all sources of criticism are removed and that it will survive economically and politically. If the necessary changes which we are recommending are adopted now by legislation and/or regulation, our association believes that a sound no cost program will endure for many years. Domestic use will increase, exports will increase, production and imports of offshore tobacco will decrease, and income to farmers, warehousemen, dealers, and manufacturers will provide prosperity for the whole tobacco industry.

We thank you for this opportunity and for your serious consideration of our recommendations.

Senator HUDDLESTON. Thank you, Mr. Nelson.

Mr. LOGAN. Mr. Nelson has made our statement. We will be glad to answer questions.

Senator HUDDLESTON. Very good. Of course, one of the basic questions we are going to have to decide in whatever legislation we have to draft is. "to what extent we go beyond the actual mandate to make the program no cost." I agree with your contention that there are things that can be done to eliminate or certainly mitigate the opposition we are confronted with in Congress. You had mentioned or alluded to the question of the increase in imports into this country and I think you also mentioned the decrease in the percentage of U.S. tobacco now being used in world trade. Do you have those figures handy?

Mr. NELSON. If you give me a minute I will have them.

Senator HUDDLESTON. If you will, this is something I have to take into account, and I don't think we can totally ignore. Import tobacco has gone up substantially and now constitutes approximately 20 to 25 percent domestic use. Do you have the figures now, Mr. Nelson?

Mr. NELSON. These figures are in relation to our losses in the world market. In the period 1960 to 1964, the United States produced 41 percent of the world Flue-cured tobacco and 80 percent of the burley. In 1980 our Flue-cured share was only 22 percent and our burley share was only 41. Even disregarding 1979 and 1980 when we had abnormally short crops, our 1974 to 1978 average burley share was only 51 percent. In 1960 to 1964 the United States sold 52 percnt of the Flue-cured and 55 percent of the burley. In 1979 our share has been reduced to 32 percent of the Flue-cured and although the total poundage of burley exported has increased significantly, our market share has gone to only 26 percent. World burley production in 1980 is estimated to be 1,346 million pounds. If we still had the 80-percent share of world production our U.S. growers had in 1960, our growers would have sold 522 million pounds more last year.

Senator HUDDLESTON. What about the tobacco coming into the country, the imports as a percentage increase?

Mr. NELSON. I don't have those figures. They obviously have increased in the area of burley. That has been in a great deal in a great proportion due to the short crops that we had in 1979 and 1980 but the major overriding factor involved in imports is price competition. As the tobacco becomes more competitive pricewise, we will do a great deal to eliminate that problem.

Senator HUDDLESTON. You are getting into an area that I think probably is the most sensitive thing we will have to deal with and that is the question of reduction of price support because, as you understand, that is directed at the grower and has an immediate effect on his income. As I mentioned, we can't totally ignore the statistics you have given to us here. Some of the farmers I talk to recognize there may be some necessity for a slight adjustment, and the slighter the better, I guess, because we worked very hard to get that formula in place. It is part of the permanent law, and we know there is always some danger in tinkering too much with that. You mentioned a point that had been raised though in some of our other meetings and that is the matter of potential price spread between various grades. What specific problems do you see if price spreads get out of range and you have grades that are either cheaper or higher than they normally are in relation to other grades?

Mr. NELSON. Well, the way the program or the system has worked in the past you had an average price support that was mandated in the formula in the law. Individual grade prices have been established based on what percentage of those grades was in prior crops so that when you put the prices on individual grades the average came back on a mandated figure. If there were undesirable grades or grades in excess then you tried to hold the support price for those grades at a lower level. You automatically had to increase the price of better grades out of proportion of their realistic value to come back to your average, and we think that system should be modified and adjusted so you can hold down prices on excess or undesirable tobacco without running the price of your better grades too high in comparison with the world market.

Senator HUDDLESTON. Would the price of the various grades have an influence on the manufacturers and the blends that they develop?

Mr. NELSON. My answer is "Yes." For instance, under any formula if the price support levels for burley tobacco got too high in relation to Flue-cured tobacco I am sure it would have some influence on the way the manufacturers used it.

Senator Huddleston. So you would hold down the cost of lower price grades, if you could get away with it and still have good cigarettes, would be one method of doing it. Senator Helms.

The Chairman. Just one question. There is nothing new—you use the word stabilize. I use the word freeze. You recommend freezing the price support formula at the 1981 level?

Mr. Nelson. Yes sir.

The Chairman. Subsequent adjustment due to cost of production excluding land management and lease costs, you have a dollar figure in terms of price support per pound for your recommendation?

Mr. Nelson. No sir, because it is geared to the price of production or costs of production and what we are attempting to do with this recommendation is, as you say, freeze or stabilize 1982 price support at 1981 level and then calculate future price supports on the cost of production. This will not roll back price supports. It will simply slow down the escalation and what we think is that in order to get our tobacco more competitive in the world market, this has to slow down. Other world prices are increasing and if we slow down our increases sooner or later they will get close enough to us so that our quality will be worth the difference and thereby stimulate the use of our tobacco. We know the U.S. farmer can't compete with some of the overseas farmers from the standpoint of labor costs and all these things and we are not suggesting that we can but if the price is not as wide or ever widening, at some point a lot more of our tobacco will be used, will move into the world trade based on its quality known by everybody in the world and doesn't need to be established.

The Chairman. I can't tell people what they already know, they have to concentrate on quality too.

Mr. Nelson. Absolutely.

The Chairman. If the price support formula is adopted for a no net cost to produce tobacco to put tobacco on a very competitive basis, do you think there ought to be a connection to direct sales of the CCC Association?

Mr. Nelson. As you well know we object to that being used by a co-op because the producer cooperatives do not compete on the same basis as we do. We do not fear any competition as far as sale of tobacco from anybody that is playing by the same rules that we have to play by. If that were straightened out, we would not object to them trying to sell tobacco directly.

The Chairman. Since it came up it has been mentioned there ought to be some restriction that they wait 2 years to sell a crop directly. I wanted your reaction to that.

Mr. Nelson. Our overall reaction is when our members are traveling the world over trying to sell tobacco, we are trying to sell any tobacco that is available, and if we don't have it or can't get it we stop selling it. I don't think in view of the long history we have in establishing our contacts in normal situations throughout the world that the co-ops would have much better luck than we have in undertaking the task farther down the line.

Senator Huddleston. Thank you very much. Bill Balden, representing the Burley Farmers Advisory Council.

STATEMENT OF BILL BALDEN, REPRESENTING THE BURLEY FARMERS ADVISORY COUNCIL

Mr. Balden. Mr. Chairman, Senator Huddleston, we appreciate the opportunity to come and meet with you today and express our opinion of the Burley Farmers Advisory Council.[1] I hesitate to sit here alone and everyone have someone with them. Maybe I should call Henry West to come down and support me. He is vice president from Garrett County.

The Burley Farmers Advisory Council represents the grassroots burley producer in 60 counties in Kentucky, from Davies County in the west to Carter County in the east, and from Jefferson County on the north to Wayne County in the south. We have voting member representation from all of these 60 counties.

Our statement was prepared for Congressman Hopkins' hearing which was held back a few weeks ago and we would express at this time our appreciation to you for having a hearing here and for your concern about our burley tobacco program and also Senator Ford and the support that you both have given us in Congress during the past year.

Even after a very successful tobacco year taxes received from tobacco by our Government have been over six times what we received from our crop as farmers. I would like to point out to that we as farmers get out in the field and work our fingers to the bone almost and the Government does absolutely nothing to receive these funds. So it is sort of appalling to us at times that they criticize us for and make us want to have a no cost program. But in spite of these facts, I think we as farmers are willing to pay our way and have a no cost program to the taxpayers of Kentucky in exchange for a program such as we have.

Our organization would like to call your attention to the fact that for the first time this marketing year we, as burley producers, have paid $3.5 million for our grading service. This has eliminated the cost of the taxpayer of which we as producers are a part. In conjunction with this, however, we are looking forward to a Tobacco Producer Advisory Committee appointment so that we may have input into the grading program to achieve this no net cost. We have had several meetings here in Kentucky among all of the various organizations and I think all of us are pretty much in agreement on the points that have been stated. We are willing to allow the producer associations to increase their fee to possibly a maximum limit of $2 to defray the costs of their operations. We are also willing to implement a program where the association will not refund a net gain back to the producer. They may keep this for the operation of the cooperative pool. In addition to that, all of us farmers are willing to have a deduction from our proceeds of approximately 1 cent per pound of burley to build up a kitty or a fund that will guarantee that there will be no cost to the Federal Government. I, in talking with farmers, find very little if any resentment to doing this and paying our just duty.

When excess stocks of certain or all grades of tobacco accumulate in the loan association, the Secretary with the advice of a tobacco

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[1] See p. 267 for the prepared statement of Mr. Balden.

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grower advisory committee should have the authority to adjust the price support loan rate downward by not more than 35 percent. This should be achieved with the advice of this advisory committee.

It is further recommended that enabling legislation be to permit dark Air-cured or dark Fire-cured tobacco producers to vote on a referendum on instituting a poundage program for these types of tobacco. That concludes my statement. Thank you.

Senator HUDDLESTON. How do you envision the advisory committee or advisory council that would advise the Secretary of Agriculture be structured? Should it be given virtual veto on what the Secretary might suggest or order or be strictly an advisory committee?

Mr. BALDEN. Well, I would visualize this as being representative of the farm organizations and growers themselves and if the Secretary gets advice from these grower organizations, I would hate to see him do opposite of what they recommended.

Senator HUDDLESTON. You would hate to see him do it, but all the Secretaries of Agriculture that I have seen want all of the flexibility they can get. Most Congressmen, and the Agriculture Committee particularly, want to give them flexibility but within limits as to how far they can go in reducing a program or whatever. I think we have some kind of legislative difficulty in determining to just what extent the Secretary may be bound by recommendations that come to him from an advisory group.

Mr. BALDEN. Well, I am sure the Secretary will have the ultimate authority.

Senator HUDDLESTON. You want to bind him as much as you can to what the producers think ought to be done?

Mr. BALDEN. I would like to see him accept the advice of the producer group.

Senator HUDDLESTON. You agree with the Farm Bureau presentation that the reduction should be limited to 35 percent in the grade for any particular year?

Mr. BALDEN. Yes.

Senator HUDDLESTON. I take it you oppose the freezing of the price support level as it is?

Mr. BALDEN. We oppose that; yes. If I may, may I make one announcement?

Senator HUDDLESTON. Sure.

Mr. BALDEN. We are having a meeting of the Burley Farmers Advisory Council immediately following this meeting here and I would like to invite any of you in the audience who would like to attend this meeting that it will probably start at 3:30 this afternoon. At 5:30 we will have dinner and then adjourn at 6:30. We do need, however, to know if you want to attend and have dinner with us so there will be a place for you to sign out in the hallway to make your reservations. Thank you very much.

Senator HUDDLESTON. Thank you Mr. Balden. We are going to recess in just a few minutes for lunch break but we have provided time at this point and time at the end of our session to get comments from those in the audience who may not now be listed as witnesses. I will respond to any questions you might have to the best of my ability. Senator Helms, I would like to point out, is going to stay with us as

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long as he can today. He has another obligation in Washington and probably will have to leave before the end of our session this afternoon, so I suggest that any questions you want to direct to him personally be done at this time. We have names of individuals and organizations who have indicated they might want to make some comment. Is Henry Grady here?

Mr. **Grady**. Yes sir.

Senator **Huddleston**. Do you want to comment at this time before we proceed?

Mr. **Grady**. Would it be possible to wait until after lunch? What happened, we had to do some reorganizing.

Senator **Huddleston**. All right. What about William Bryant?

Mr. **Bryant**. Not right now.

Senator **Huddleston**. Mr. Sharp?

Mr. **Sharp**. I would like to have an opportunity to answer everybody who has been up there today in a different forum.

Senator **Huddleston**. We would be very happy if you want to submit a statement to the committee.

Mr. **Sharp**. I want to submit to the committee.

Senator **Huddleston**. We will make it a permanent part of the record.

Mr. **Sharp**. I want everybody to hear it. Now, there have been six groups of co-ops, and the burley tobacco producers, but no person yet has been here who operates a warehouse, or has operated a warehouse, or has dealt with hundreds and hundreds of tenants and who has seen what the economical effect of what has been said here can be done without any of what we heard.

Senator **Huddleson**. But we have representatives of warehousemen on this afternoon and as I said I would be glad to have your presentation for the record.

Mr. **Sharp**. I also want to answer about quality. I am very interested in the quality that Mr. Southwestern Man at the University made.

Senator **Huddleston**. We are too and I think everybody is. I might point out that the nature of a hearing such as this is not to convince people that are here in the audience. It is to establish a record which we can study and our staff can study and other Members of the Senate can study relating to the issues. We are, therefore, having everything recorded and everything will be available to every Member of the Senate. We are not trying to convince those here of any particular point and trying to get as many points from everybody as we can for the consideration of the Senate itself. Does anyone else want to make a comment?

Mr. **Richards**. My name is Dan Richards. I am from Anderson County. I have only one comment. I would like to see the allotment and quota system left intact. We don't object to the no cost but we would like insofar as possible the quotas and allotments not be destroyed.

Senator **Huddleston**. I don't think there is any idea that we destroy allotments. There are some suggestions for fine tuning. The allotment system is the key to the whole program. If we don't have the allotment to control production we are in serious trouble.

The **Chairman**. Mr. Sharp, I want to be sure you understand that Senator Huddleston and I will be counting on you for a formal statement to go in the record. Will you supply that?

Mr. **Sharp**. Yes sir, I will type it up and give you a statement.

The **Chairman**. We would like for your views to be a part of the record.

Mr. **Sharp**. I would like for the question that Mr. Huddleston has been asking, I want to answer a few of them and am anxious to do it. I am not in any kind of business. I am retired.

The **Chairman**. All right. We will be back to you.

Mr. **Ruggles**. One question. The no cost program, has there been any effort to make that apply to the administrative cost too?

Senator **Huddleston**. Make it apply to the administrative costs?

Mr. **Ruggles**. Yes sir, ASCS Office, the administrative costs of the ASCS?

Senator **Huddleston**. No; it would not include the ASCS Office. The interpretation at least that the Department has made at this time does not include the ASCS Offices. We don't have to cover their costs. We start from that point on though and tobacco producers pick up the costs of producer co-ops themselves and that is where there has been some question raised as to whether or not the Government ought to pick up those costs too as an extension of the ASCS operation. Any other question or comment? Back row?

STATEMENT OF LUCIAN ROBINSON

Mr. **Robinson**. I couldn't agree with the 1982 because if it was like it was last year, 1981, if they are going to do that they better cut the price tag because our expenses is going to go up. If you don't think so, break a tractor and try to replace it and chemicals (Ridimol) for blue mold are $122 a gallon. Our expenses are going up and our prices are going to have to go up or you can't compete. We're not competing now and also I think I heard a suggestion that the allotment be reduced. I know some widow women who have allotments and they can't grow it but they can lease it or rent it to somebody but that tobacco allotment quota contract is part of their investment and you are going to take that away from them without them having any say so. Maybe they have their farm setting there but these poor fellows, if you take that allotment away and they sell it at auction, the price goes way down. I am always glad to hear about a farmer up here in Fayette County going into the race horse business because that makes more room for the poor farmer in Robertson County who grows tobacco down there on the small farms to go ahead and grow some tobacco down there. We don't have race horse land down there very much of it. They have race horse land up here and they fertilize it and raise race horses. I talked with Carrol Tichenor, or Jessamine County a few years ago and he converted his tobacco farm into a race horse farm and raising grass on it. It distresses me to see this soil washed away. I worked 22 years with USDA Soil Conservation Service trying to keep the soil on the land and where you don't want to plow up on the hillside and stuff. A man has got a hill farm and you can't plow up the hillside and keep it from washing away. Thank you Senator.

Senator **Huddleston**. I think you have some good points there. Obviously you have talked to a lot of other people about it too. We didn't get your name.

Mr. **Robinson**. Lucian Robinson, just like Robinson Crusoe.

STATEMENT OF JOSEPH WOLF

Mr. **Wolf**. I read here that still unresolved however is the issue of allotments held by people and corporations that do not actually grow tobacco. The Federal Government has issued 620,000 allotments which are essentially licenses to grow a certain amount of tobacco but there are now only 270,000 tobacco farmers. I would like to know why that is.

Senator **Huddleston**. Do you want to respond to that, Mr. Dunlop?

Mr. **Dunlop**. Well, Senator, the gentleman has raised a question that is asked of the tobacco program all the time in Washington, and of course, the reason for that is the increase in the lease and transfer program a number of years ago which permits the allotments to be leased and transferred by the people who hold the allotment. As a consequence, the size of the farms and the number of farms have declined in the United States over the past 50 years. We have a situation where fewer people are growing tobacco than are licensed to do so. It is just a matter of arithmetic. I don't quite get the drift of the question. Is there a point that the gentleman was seeking to have answered other than that, other than why we have fewer farmers than we had 50 years ago?

Mr. **Wolf**. Well now, that is not my question. My question really is why we have the difficulty in securing increased allotments for small farms, average farmers. As agreed today, I think 13,000 pounds is their allotment.

Senator **Huddleston**. 13,000 pounds—about an acre and a half is average and it would be about 5,000 pounds.

Mr. **Wolf**. I read it in the New York Times.

Senator **Huddleston**. The New York Times is always wrong.

Mr. **Wolf**. My question is why is it so difficult to increase an allotment? According to the statistics if there are this many allotments out, why is it so difficult to get into it?

Senator **Huddleston**. To get into the program, you mean people who are not in it now?

Mr. **Wolf**. Get an acre or so.

Senator **Huddleston**. Well, actually, one of the great strengths of the program, one of the reasons it has been able to be preserved as long as it has is the fact that the actual allotment per person is relatively small, about 1.4 acres in Kentucky. It is a little bit higher in Flue-cured areas. In addition to the spreading out of the number of people that participate in the program, it provides a pretty substantial political base which would be diminished if fewer people grow tobacco. The question of allotment is one I think we ought to legitimately consider during the considerations that we have going on now because it is an area where we are attacked. On the question of the matter of corporations, some people believe that corporations should not own an allotment at all and some farms are incorporated. Some people suggest that any person that does not own farmland, active farmland, should not be permitted to own or control an allotment. So there are many approaches to this. My own feeling is we really ought to look at a new criteria or determine a new criteria for those who are entitled to own the allotments. We ought to develop some way to compensate those who would not fit that criteria and thus would be required to give up their allotments. I don't have any definite specific ideas at this point just exactly how it should be done but I do believe that is something we ought to give serious consideration to. I might point out we are not trying to develop a Dee Huddleston tobacco program or a Jesse Helms tobacco program. We are trying to develop one that will represent the interests of everybody concerned with the program, one we can defend and protect on the floor of the House and the Senate. But the questions you bring up are legitimate concerns, things we have to contend with, things many growers believe ought to be changed. We are trying now to find the consensus of the tobacco growers, a consensus of what changes ought to be made in the best interests of the program.

The **Chairman**. What is your name, sir?

Mr. **Wolf**. Joseph Wolf.

The **Chairman**. Please let me say I thoroughly enjoyed this morning. I see why you are such a nice guy. You come from nice people. When they run me out of North Carolina I want to come to Kentucky. NBC went down to my little hometown, a little urban town on the South Carolina line. My county is Union County and Union County doesn't mean anything to you probably but I will tell you that Andrew Jackson was born in Union County. I think so often that Andrew Jackson paid off the national debt when he was President, and I hope someone from Union County or Luther County, or whatever, will do it again. But NBC went down to try to find something of a critical nature with the people with whom I grew up. Most of them are grown and gone but they finally talked with Mr. Neeley Amos on the street one day and he said yes, he knew Jesse Helms when he was a boy, grew up together, and he said what kind of fellow was he, and he thought a while and said well, if he stayed here he would have got a fair trial and wouldn't have got no more than a suspended sentence.

I have enjoyed being here and when you come to Washington I want you to remember you got three Senators because I want to be one too.

Senator **Huddleston**. Thank you, Jesse. North Carolina sent us a fellow one time by the name of Daniel Boone who made some impact on our State. He went over and died in Missouri and we had to steal his body and bring it back for burial.

We will take a recess now for lunch and come back here as close to 1:15 as we can and resume our hearing. Thank all of you for coming and get a quick bite and come back this afternoon.

AFTERNOON SESSION

Senator **Huddleston**. The committee will come back to order and resume. Our first witness this afternoon is a former State senator and a former commissioner of agriculture in the State of Kentucky. He is now the executive director of the Kentucky Council on Agriculture, Tom Harris.

STATEMENT OF TOM HARRIS, EXECUTIVE DIRECTOR, KENTUCKY COUNCIL ON AGRICULTURE

Mr. **Harris.** Thank you, Senator. I am Tom Harris, a tobacco farmer and executive director of the Kentucky Council on Agriculture.

To the average Kentuckian, the burley tobacco price support program has been the only farm program that has worked successfully for any period of time. It has a proven record through some 40 years of operation that is truly sound. It is only natural that we want to keep this program and we will do, Senator, whatever is necessary for us to do in order to assure our future in the tobacco business. Every time that a referendum has been voted upon by the people of Kentucky who produce tobacco, it has passed by an overwhelming majority.

Many farm organizations, by working closely with the burley owners, have helped them meet their problems headon. When it was necessary for us to cut our acreage quotas, we did it. When it was necessary for us to give back our poundage raises, we did it, and we continued to try to grow a quality tobacco that would be considered a good, useable tobacco by all.

We now understand that Congress has mandated the tobacco program to change so that there will be "no net cost" to the taxpayers starting with the 1982 crops but excluding any losses which the Department suggests that might occur in the loan inventories of the 1975 through the 1981 crops. Am I right on that, through 1981?

Of course, a portion of this projection pertaining to the 1975 through 1981 crops will not affect the burley growers in Kentucky because the only tobacco left on hand at the present time in the burley pool that isn't sold is the last crop that we raised. I would hope, Senator Huddleston, that the Secretary of Agriculture would consider placing the Burley Associations' costs or the burley growers' costs in with the other administrative costs that they (USDA) have already listed. Certainly, if the duties they perform aren't administrative, I don't know what we would call them. I think they ought to be placed right in there.

When I look at so many billions of dollars that have been collected in the form of Federal cigarette taxes and then hear that $57 million is all that has come out, even though none of it came out of the costs up here, it looks to me like a mighty small amount to ask to let the Burley Association be included in the program administrative costs.

In keeping with the mandate, the Secretary of Agriculture submitted a report to Congress requesting four major changes in the tobacco program. Before I discuss the four points, let me make this point. There are 13 tobacco associations that undoubtedly will have different problems, different degrees of problems, and at different times. I therefore believe it would be impossible to set a hard, fast rule for all of them to operate under. If this be so, the Secretary of Agriculture and USDA must work with each association as a separate entity.

The first suggestion of the Secretary will allow producer associations to increase the amount deducted from price support advancements from the now $1 a 100 to a larger amount. You know, if they would just consider the pools as part of the administrative costs, we can forget this one. That is what I would like to see done. Instead of cutting the price support down for all tobacco offered for sale or instead of charging a set fee only for the tobacco that goes into the pools, I would like to say, Senator, let the USDA administrative costs include the operation of the pools.

If we do not do that, then we are going to have to ask for money from somewhere, and as we think about how much we are going to need—I am going to get ahead of myself here in 1 minute. I am going to turn over the page to table I and talk about the amount of tobacco that is going into the burley pools. In 6 of the last 10 years, there has been less than 23 million pounds of tobacco going into the pools—1 year, 200,000; 1 year, 700,000; 1 year, less than 3 million—so there have been some years when there was very little tobacco received. Now, it doesn't make any difference if you charge $100 a pound—if you don't get any pool tobacco, you don't get any operating money. So, we have got to assure those people whose tobacco is pooled that they are not paying the entire administrative costs. If you cannot do that, then do what you have to do. Raise it to $2. We don't like it, but we may have to do it. As a major objection, the Federal report indicates that the burley pool will be getting an estimated 35.2 million pounds of tobacco annually, while $414,000 are needed to operate each year. Remember, if the pools do not receive any tobacco or if they receive very little, another means of financing must be provided.

Two. Allow the producer associations to use the gains from the sale of one crops of loan tobacco to offset potential losses incurred by the associations on other crops. I believe that most people in Kentucky think this should be enacted. If no losses incur, then we envision that the farmers could continue to receive the refunds in this area, this burley area.

Three. No. 3 would establish a fee which would be collected from every producer marketing tobacco. This would be looked upon as an insurance fund guarantee to the Commodity Credit Corporation and the taxpayers that they would not have to stand any loss. It has been suggested that 1 cent per pound be collected and placed in a fund. The Secretary of Agriculture would have the power to impose the fee on a year-to-year basis and to suspend or resume the fee whenever necessary.

On this point, we believe the Burley Tobacco Growers Cooperative Association should be given tax-exempt status and I am going to repeat that. We believe that the Burley Association should be given a tax-free status in order that the association might receive the funds for the purpose of investing, managing, and disbursing any fees collected. When we go to collecting fees for grading services, for assuring that Commodity Credit won't lose any money, for this, or for that, and you have the deductions to make for whatever it is, I am saying that it is acceptable as far as the farmer is concerned, as far as the warehouse is concerned, as far as everybody connected is concerned, to put the fees together for collection purposes by the individual pools.

I don't mean that I don't trust Commodity Credit, but I would feel a whole lot better if those funds were sitting right here in Kentucky, knowing they were earning money for us and that they are being used. Now, if we can't do that, all right, we will send them to Commodity Credit or to somebody in Washington, but when you look at the record of what our burley people have done, I say give it to them and let them administer and distribute that money.

Four. Suggestion No. 4 gives to the Secretary of Agriculture discretionary authority to adjust the tobacco support prices. I think he already has that power, if you check it right close, but if he hasn't, lowering the support price by 35 percent of the annual price support increase has been suggested. It ought to be limited to 35 percent and maybe it ought not be decreased at all. When we compare the 1981 support price with the anticipated 1982 support price increase, we are talking about a difference of 18 cents or $18 a hundred. If we cut it 35 percent, that is $6.30. I am saying that every farmer should pay $1 and I think most farmers would agree they wouldn't mind paying that dollar. But, if we cut it a buck, plus 35 percent, and add 45 cents for grading, which I understand is going up, and they continue to take out the original dollar, and maybe raise it, that can get up to $10, which is more than the actual raise. That is not what we are trying to do in guaranteeing "no cost" to Commodity Credit of the Federal Government. We may have to cut the prices, but not to meet competion, because I know we can't meet the competition based on some of these foreign prices. There is no way to compete and sell it as cheap as they do unless a lot of things change. I don't want to get where we can't sell it at all, but I'll tell you what—I don't want to go broke raising tobacco I can't make a profit on, either. I say, let us put the 35 perecnt on there as a limit, if we have to do it.

Senator, what I am really trying to say here is, if we really need to do it, if conditions warrant it, then I am willing to go for that portion, but you see that they don't get it in there until they need it, will you? We must keep our burley tobacco program and our pool in operation, either by placing their administrative costs under the administrative costs of the USDA, or we must collect $1 or maybe even $2 for administrative costs on tobacco sold. Of those four recommendations, surely we can get the job done as we would like to have it done.

Senator, I want to thank you. I didn't get to thank Senator Helms, but I know some of his staff are here and I want to ask them to thank him on my behalf. Thank you for coming down here. We appreciate what you have done and, of course, you know we expect you to keep on doing it. Thank you. Keep it up as much as you can, Senator, and keep the tobacco plan as strong as it is. Thank you.

Senator HUDDLESTON. Thank you, Tom. You haven't changed a bit since you were a State senator.

Mr. HARRIS. I know you don't want to ask me any questions so I am going to sit down.

Senator HUDDLESTON. Tom, I think we got your message. Don't do any more than we have to, and don't do it until we have to do it.

Mr. HARRIS. You got it exactly right.

Senator HUDDLESTON. Is Jack Griffith here, president and member of the board of directors of the Council for Burley Tobacco, Inc.?

REPORTER. No answer.

Senator HUDDLESTON. How about Frank B. Snodgrass, vice president and managing director, Burley & Dark Leaf Tobacco Export Association? Frank is here.

STATEMENT OF FRANK B. SNODGRASS, VICE PRESIDENT AND MANAGING DIRECTOR, BURLEY & DARK LEAF TOBACCO EXPORT ASSOCIATION

Mr. SNODGRASS. Thank you, Senator Huddleston. For the record, my name is Frank B. Snodgrass, vice president and managing director of the Burley & Dark Leaf Tobacco Export Association, with offices at 1100 17th Street NW., Washington, D.C. This association is a federated trade association representing the growers, auction warehousemen, dealers, and exporters of tobacco from eight-State burley and dark tobacco-producing area.

I appreciate this opportunity of appearing before your committee to give our views concerning the issues under consideration. I wish to commend the members of this committee for their untiring efforts over the years in preserving a sound and workable tobacco production control and price support program.

I would like to address the issue contained in the Secretary of Agriculture's report to the Congress on recommendations to carry out the tobacco price support and adjustment program at no net cost to the taxpayers, other than the cost of administering the program.

I wish to direct your attention to the assumptions made by the Secretary of Agriculture in preparing his report to Congress on the aforementioned subject. Assumption (1) indicated that the no net cost is effective with the 1982 crop, yet he excluded possible losses on the 1975–1980 crops. This assumption should be revised to also include the 1981 crop loan inventories. Assumption (2) defined the term "administrative expense," yet it arbitrarily excluded the most important administrative expense which is performed at the grassroots level by the producer cooperative associations. I recommend that the overhead expenses of these associations be included with those outlined above as administrative expenses.

The administrative action taken by the USDA in removing the limit of $1 per hundredweight for association overhead will in reality decrease the average price support loan rate level on every pound of tobacco offered for sale by our growers. However, funds to defray overhead expenses would only accrue to the grower cooperatives on the actual number of pounds taken under loan. In any event, there should be a limitation of no more than $2 per hundredweight for overhead deductions.

In the event that overhead costs of the grower cooperatives were included as an administrative expense, it would make it far more palatable for the growers to make larger payments to what the Secretary refers to in his legislative recommendations of establishing a fee which would be collected from every producer marketing tobacco to offset losses that might occur under the price support loan program. We would suggest that the term "fee" be deleted and that funds collected under that proposal be referred to as the "tobacco grower program insurance fund." It is our recommendation that starting with the 1982 crop for all kinds of tobacco under price support, that 1-cent-per-pound deduction for this fund be made on every producer sale of tobacco, whether sold by warehouse or nonwarehouse sale. The level of the per pound deduction in future years would be determined by the Secretary upon recommendations of the tobacco grower association administering the loan program. This tobacco grower program insurance fund would be kept in an interest-bearing tax-free escrow account by the individual grower cooperatives.

The aforementioned fund, as well as funds accruing from all or a portion of the net gains from the sale of one crop of loan tobacco, which cooperatives may retain to offset losses that might be incurred by the individual association on other crops of loan tobacco will need some clarification as to the actual custodian of those funds.

It is the consensus of opinion that in each instance the individual grower cooperative association administering the price support loan program should be the custodian of these separate funds. However, legislative authority must be obtained to assure that such funds not be subjected to income tax liability. This could be achieved by setting up escrow accounts with participation certificates being issued to the contributing producers to the funds and in the event that losses do not occur, possibly at some later date, distribution of the funds, plus interest, could be made to the individual growers on a pro rata basis.

I do not feel that we will experience any grower criticism for retaining all, or a portion, of net gains from sale of loan stock tobaccos. I think that grower resistance would be minimized with deduction of a reasonable per pound amount for the tobacco grower insurance fund that would be held by the cooperative which would make the necessary annual recommendation on the limitation of the level of such deduction.

The other legislative recommendation of the Secretary of Agriculture was a request for authority to adjust, under certain circumstances, price support levels for the various kinds of tobacco. We feel that when excessive stocks of all or certain grades of tobacco accumulate in loan association holdings (based by kinds), the Secretary, with the advice of the producer association, should have the authority to review the program on an annual basis and adjust downward the increase in the price support loan rate level by not more than 35 percent, in an effort to assure a no net cost tobacco program. That doesn't necessarily mean that all kinds will need that adjustment but I think the authority should be there for an annual review.

I feel that both Flue-cured and burley price support operations can be brought into compliance with the intent of Congress; however, the minor kinds of tobacco, such as the dark and cigar types, will have difficulty meeting these requirements. This is occasioned by the small volume of marketings, lack of competitive buying, surplus holdings of loan stock tobaccos and the increasing fixed overhead expense required to administer these programs.

While these minor kinds of tobacco comprise only about 7 percent in volume of all tobacco produced under the tobacco program in the United States. any losses in principal or interest on these kinds of tobacco would defeat the purpose of the no net cost proposal.

The expression of the intent of Congress on this subject does afford an excellent opportunity for passage of necessary corrective changes in the program without subjecting the survival of the tobacco program to the ever present hostile antitobacco forces, since it is being done at the specific request of Congress. If in your wisdom, you find it necessary to go the legislative route, there are several other items that should be considered by your committee. The dark tobacco producers have expressed the desire to be included in the poundage program presently in effect for burley tobacco. They do not wish to come under certain restrictions of that program; however, I will not go into details at this time but I will communicate it to the committee staff. There is also considerable sentiment among burley producers for increasing the limits for leasing of burley allotments and removal of the 5-percent limitation for annual reduction in the burley quota.

Last, but not least, we must initiate an educational program among our growers to encourage the production of well-prepared, usable tobacco in such quantities that will reaffirm the United States as a reliable source and the world supplier of quality tobacco. In our view, the export market will continue to be the difference between profit and loss for the U.S. tobacco growers. Maintenance of a viable and sound tobacco program is vital if our producers are to effectively compete in the highly competitive world market. I wish to thank you for the privilege of appearing before this committee and will be pleased to answer any questions you may wish to ask.

Senator HUDDLESTON. Thank you very much, Mr. Snodgrass. Your testimony and suggestions regarding your interpretation of the no cost program are good, and I assure you we will be looking carefully at those interpretations to make sure we can all agree on just what they are and what the rules are before we get too far in the game. I like your idea, on the surface at least, of the tobacco growers program insurance fund as a technique to use for the reserve, and this would be built up.

You too would put a limit on the amount of adjustment downward by the Secretary on various grades that might come into surplus. What standards do you think we ought to have to make a determination of what particular grade is in fact in surplus and how the support level ought to be reduced on it?

Mr. SNODGRASS. Well, Senator, my experience has been, from the buying interest, that they always want what you don't have and what may be a surplus trade this year might not be one next year. Take, for instance, the Flue-cured, they had a large accumulation of downstalk tobacco so it would make sense that they make some adjustment so they won't continue to build up that same kind of tobacco.

Senator HUDDLESTON. Then you are saying that it ought to be so that there is a definite obvious situation where the demand has either dropped or the quality is not being sold before the Secretary would put into effect the decrease?

Mr. SNODGRASS. That is what is happening, and I think, with the grower association making recommendations, you have a safeguard there because they won't be shooting from the hip.

Senator HUDDLESTON. Thank you very much, Mr. Snodgrass.

Mr. SNODGRASS. Thank you, sir.

Senator HUDDLESTON. Mr. Ben Crain, first vice president, Burley Auction Warehouse Association. You may proceed.

STATEMENT OF BEN CRAIN, FIRST VICE PRESIDENT, BURLEY AUCTION WAREHOUSE ASSOCIATION

Mr. CRAIN. Thank you, Senator. First of all I would like to take this opportunity on behalf of the Burley Auction Warehouse Association to welcome you and what is left of your committee. We certainly appreciate your coming and welcome you back home.

I will take this opportunity to read to you and to the others a short position paper prepared by the Burley Auction Warehouse Association. The tobacco program has survived many crises in the past and we have full confidence that the tobacco growers will survive this crisis if indeed it is a crisis. Burley Auction Warehouse Association was founded 36 years ago and for 36 years the most important function of our association has been to maintain an orderly marketing system for burley tobacco.

As warehousemen we are the agents of growers and we are the keepers of marketplaces. For 36 years we have worked with all other segments of the tobacco industry to accomplish the main purpose of the marketplace and all of you know that purpose is to create an endless supply of burley tobacco and to sell that tobacco at a fair price.

Each year when the price support program enters the marketplace, it helps both the supply of tobacco and the price of tobacco. After the Secretary of Agriculture sent his recommendations to Congress in January for achieving a no net cost tobacco program, our association was involved with other organizations in three sessions on the burley tobacco steering committee to consider and comment on the four recommendations made by the Secretary, two administrative and two legislative.

Our evaluation of those three meetings is that the various areas of the tobacco grower community were in general agreement in their consideration of the Secretary's program. On Monday, February 15, the board of directors of the Burley Auction Warehouse Association held a special meeting in Lexington for the purpose of giving further consideration to the Secretary's proposals. Our board of directors determined that our association should give its general support to the recommendations made by the burley tobacco steering committee at its meeting on January 5, a copy of which is attached to this statement. The leadership of the warehouse association believes these proposals are fair and feasible and we will cooperate in every way to accomplish these proposals in an orderly manner.

Now, we would add just one word of caution. If the Congress gives the Secretary authority to adjust downward the price support program on excessive stocks of tobacco which accumulate in loan associations, it is predictable that there may be created a disparity between the price supports on burley tobacco and the price supports for certain various Flue-cured tobacco. Our word of caution is simply this: If such a disparity between burley and Flue-cured price supports does arise, this should be monitored very carefully to avoid further problems. We thank you.

Senator Huddleston. Does this get to the problem we were referring to earlier that by changing the traditional difference between price levels in various grades might also change the usage of various grades, and thereby could be detrimental to burley tobacco, and possibly Flue-cured, if the situation were reversed?

Mr. Crain. I think that is a danger that we are trying to point out, Senator. Please don't think we, as an organization, are recommending a freeze on price support or anything of that nature. We are just warning the farmers and the lending portion of the industry that if the disparity between burley prices on one hand and Flue-cured prices on the other hand are separated by a fairly wide margin, yes, you might see a shift in the usage of burley versus Flue-cured tobacco. Yes, sir.

Senator Huddleston. It has been suggested that the fee that would be collected on each pound of tobacco placed under loan in order to pay the operating cost of the association, that it should be collected by the warehousemen rather than deducted from the price support loan by CCC. What is your organization's opinion on that?

Mr. Crain. What I give is my personal belief and I tend to agree with Mr. Harris. I think that the fee I would much rather see it added on to theirs and taken off at one time rather than make five different deductions from the farmer's crop. We would certainly hope that there would be some attention given to the education of the farmers to the point he realizes that these aren't warehouse commissions that are being deducted.

Senator Huddleston. I think the word is getting out that there are probably going to be some more deductions to the farmers and everybody else. What about the question of quota reduction? We haven't dealt with that as much today as some of the other meetings we have had. As you know the Secretary can't reduce it more than 5 percent. Can you give some suggestion on how to control production better and avoid possible surplus situations? Should he be given authority beyond the 5 percent? Do you have a position on that?

Mr. Crain. The only position I would take there, Senator, would be if the Secretary were to use the best interest of the farmer and of the burley and Flue-cured interest at heart and quite frankly not listen to Mr. Stockman, quite frankly, I think we could live with his decision.

Senator Huddleston. That's a problem we are always confronted with. The Secretary of Agriculture sometimes is subordinated to the Office of Management and Budget and the Secretary of State and various other people and gets us into trouble in agriculture. Would you think a producer advisory council would be advisable in the matter of production, as well as the matter of price support itself?

Mr. Crain. I certainly do and, of course, this advisory group would certainly have to have all the information given to them in order to make a valid decision, yes.

Senator Huddleston. Thank you very much. I appreciate that. We have Carl Risk and Will Schakel of the Indiana Farm Bureau Federation. We are glad to have you gentlemen here from my neighboring State, and will appreciate your testimony.

STATEMENT OF WILL SCHAKEL, DIRECTOR, COMMODITY DEPARTMENT, INDIANA FARM BUREAU, INC., ACCOMPANIED BY CARL RISK

Mr. SCHAKEL. Thank you, Senator. We had to leave the snow and come down here a little while and we thought we were going to see some sunshine. Senator Huddleston, my name is Will Schakel, director of the commodity department Indiana Farm Bureau Inc. I have with me today Carl Risk, who is a member of our tobacco advisory committee, and is a producer. I am pleased to have this opportunity to come before you today on behalf of the Indiana Farm Bureau to discuss the tobacco program. Indiana Farm Bureau Inc. has over 263,000 members within the State of Indiana, of which a good portion of the burley tobacco producers are members. In 1980 over 25 million dollars' worth of tobacco was sold from the State of Indiana, with most of this being concentrated in a very small area in the southeast quarter of the State. We have some serious problems facing the tobacco industry and we do want to thank the Members of Congress and the members of this committee who helped save the program from destruction last year. If we were to lose the tobacco program I am sure it would present economic hardships in the southeast part of Indiana.

We understand the condition of today's economy and why the House of Representatives stipulated that the tobacco program must operate at no net cost to the taxpayer other than for administrative purposes. The producers understand that and are willing to help provide funds to insure that the tobacco program will not cost CCC any money.

We would suggest that a grower controlled assessment be established of at least 1 cent a pound on the different kinds of tobacco until sufficient funds are accumulated to underwrite future losses on the sale of tobacco taken under loan. The Tobacco Loan Association, producer owned and controlled, have operated in a most successful manner since the tobacco program began. Millions of dollars have been returned to growers after the association paid into the Commodity Credit Corporation the principal and interest due for crop years. Our producers are willing for the association to retain some of these profits to build up a reasonable reserve for burley to offset future losses. Although tobacco is not the biggest crop in the State of Indiana, it is of a large importance to us, particularly in the southeast; however, to a certain extent producers in the State of Indiana look to the great States to the South of them for leadership in the tobacco industry. We wholeheartedly agree with the statement presented by the Kentucky Farm Bureau and just wish to add the above comments of our own. Again, we would like to thank you for the opportunity to present these to you today.

Senator HUDDLESTON. Thank you, Mr. Schakel. Do you have any figures on how many tobacco growers you have in Indiana?

Mr. SCHAKEL. It isn't a very large number. We have bases and allotments in roughly one-half of our 92 counties but practically all of this is concentrated in, or the biggest majority of it, is concentrated in about an 8 or 10 county area around Madison.

Senator HUDDLESTON. Just across from Tom Harrison here?

Mr. SCHAKEL. That's right.

Senator HUDDLESTON. It's good to have you here today.

Mr. SCHAKEL. Thank you.

Senator HUDDLESTON. Mr. Roger Perkins, Franklin County farmer.

STATEMENT OF ROGER PERKINS, FRANKLIN COUNTY, KY.

Mr. PERKINS. Senator Huddleston, for the next few minutes I am going to try to attempt to tell you what tobacco means to me and to my family and to Franklin County.

To begin, my name is Roger Perkins. I am from Franklin County. I am a full-time farmer. At the present time I am farming in partnership with my father, Wilbert Perkins. My grandfather, Herbert Perkins, is also a partner in our farming program because he owns part of the land we are now farming. So our farming program is rather unique in that we have a three generation partnership.

The history of my family is farm oriented. There has never been a time when any of my family hasn t lived on a farm and since 1937 there has never been a year that the Perkins family has not sold a crop of burley tobacco.

My grandfather, Herbert Perkins, was married in 1931, just ahead of the Great Depression. At that time up until 1937 he worked as a regular farmhand, sometimes at a dollar a day and some of this time he worked on the WPA.

In the spring of 1937 he rented his first crop of tobacco on a farm about a mile from where he lived. He had nothing but a team of horses and very few farming tools of his own. His first crop was 6 acres.

In 1950 my dad, Wilbert, began farming in partnership with my grandfather. In the meantime, granddad had managed to buy a small farm of his own but they still raised tobacco as tenant farmers. As time went on dad married and bought a small farm of his own but still farmed with granddad. By the midfifties they were raising about 16 to 18 acres of burley on different farms. I might add that they still raised tobacco on the first farm granddad rented for 23 years, and in 1960 dad bought another farm and began raising tobacco on his own land.

This is about the beginning of the time I can remember. There were about 15 years there that dad worked as a part-time farmer with a job in town, but he didn't care much for that, so in 1970 he quit the job. He bought another 300 acre farm and he and granddaddy farmed in partnership. So, in 1972 I bought a small farm on my own because it had enough tobacco base on it to be a good investment. That year I graduated from high school and after much thought decided against college and began farming full time with my grandparents.

Since that time I have married and have two children. I sold the farm I bought when I was in high school and bought a better one. My grandfather has retired and dad and I farm in partnership.

You might think this sounds like a success story. I kind of think it does especially when I think how granddad started out sharecropping with only a team of horses. This past year we farmed approximately 700 acres and sold 65,000 pounds of burley tobacco, but this change didn't come about without a lot of effort and a lot of hard work on everybody's part. From the time the first plant bed is fixed until the last stalk goes down the stripping room bench, everyone in the family works.

Occasionally I meet someone I haven't seen for a while and they will ask "Well Roger, are you still farming?" I usually answer, "Yes, I guess I don't know how to do anything else." This is true, I guess, but what is also true is the fact that I have never really wanted to do anything else. I enjoy what I'm doing and so far I think it's paying off.

Now you may think, "Well, is tobacco all you grow? That seems to be all you have mentioned." No, that's not all we grow but that is about all that's worth mentioning. We grow some corn, a few soybeans, and run some feeder calves and what-not, but truthfully, this is because we have the land and try to pick up some extra money in doing so. A few years ago we tried to slow down on tobacco and go a little more with grain and save some work, but believe me, grain just don't pay off on most Franklin County farms.

I enjoy what I'm doing and don't want to change. However, without the tobacco and a Government supported program, comparable with what we now have, I will be forced out of the farming business. There are several other farmers near my age in Franklin County who feel the same way I do. You take most any farm in my county, take the tobacco base off it, and it will hardly return enough revenue per year to pay the taxes, or the interest on the cost of the land much less all of the insurance, upkeep, and all of the other expenses that go along with so-called making a living.

As I've said before, I enjoy what I do. I want to continue but, in my opinion, and according to my records, in order for me to continue the tobacco support program is a must. Thank you again for giving me the opportunity to express the importance of the tobacco program to my family, my community, and myself.

Senator HUDDLESTON. Thank you. I want to thank you for a fine presentation and I commend you for the progress that you and your family are making. I would say this. I know I am speaking for all of the members on the Agriculture Committee, that the situation with the grower, the person actually doing the work to create this product means so much to so many people, will be uppermost in the minds of all of us as we develop the final legislation.

Mr. James Long, are you with us?

Mr. LONG. Yes, sir.

Senator HUDDLESTON. Mr. Long is a tobacco producer and vice president, Tennessee Farm Bureau Federation.

STATEMENT OF JAMES LONG, VICE PRESIDENT, TENNESSEE FARM BUREAU FEDERATION

Mr. LONG. Thank you, Senator Huddleston. I feel like I should have come up here this morning and sat here with Ray Mackey and Jim Stokes and just say amen to everything they said because that is our position in Tennessee, and we have seen eye-to-eye on it for some time. However, since the president sent me up here to make this statement and Senator Howard Baker insisted we have someone from his State to testify, I will read this very short generalized statement and comply with what I was sent up here to do.

I am James Long, tobacco, livestock, and grain farmer from Robinson County, Tenn. I am also vice president of the Tennessee Farm Bureau Federation and president of my county farm bureau. Robinson County produces three different types of tobacco—dark, burley, and dark Air-cured, and the producers of all three of those types of tobacco are very much in favor of doing anything that we need to do as producers to preserve this tobacco program. I think you will find that true throughout the tobacco belt. On behalf of Tennessee Farm Bureau I appreciate the opportunity to appear at this hearing and express the views about the program. Burley tobacco is the No. 2 income producing crop in Tennessee; therefore, it plays a major role in the agricultural economy in our State as well as the overall economy. The tobacco program as we have known it in the past has served the tobacco farmer well and certainly has been appreciated by him. Although the program has been acceptable we realize many times changes are inevitable and it appears that some minor changes are necessary in the tobacco program to insure a no net cost tobacco program.

The past history of the tobacco program is certainly obvious of the fact that it has cost the taxpayer very little; however, because of our great acceptance of the program in the past and our desire to continue the program in the future on the part of the tobacco farmers, we are willing to work to achieve the no net cost status to taxpayers in this county.

If the past is any indication of the cost of the program, certainly we could expect very little cost to anyone for this type program as it relates to burley tobacco. We believe that because of the circumstances due to the different types of tobacco that each type should be dealt with separately. We urge the cost to the farmers in a no net cost program be based on past history and that it be held to a minimum. We also believe that a fee of $1 per hundred pounds on burley tobacco from the farmer is more than adequate to cover all costs and that the fee should not exceed this amount. The support price level for different grades has been accepted by the burley producers in Tennessee; therefore, we strongly urge that changes in this area be held to a minimum and that adjustments be made if they must in light of the effect it will have on the tobacco producer.

Again, Senator Huddleston, we thank you for this opportunity and I am glad I could make it brief because I know it has been a long hard session for you.

Senator Huddleston. We appreciate your coming up and we have had good support from your representatives in the Senate and we hope that will continue.

Mr. Long. I think you can count on it.

Senator Huddleston. We have a representative here from the Ohio Farm Bureau, Mr. Slade.

Mr. Wells. Jim Wells.

Senator Huddleston. Jim Wells.

Mr. Wells. Mr. Slade could not make it. I am to read you this statement. My name is Jim Wells. I am the tobacco coordinator for the Ohio Farm Bureau. You know, Senator, we have got to look to you as one of our Senators because we only have one Senator in Ohio.

Senator Huddleston. I don't know whether to ask you which one.

STATEMENT OF JIM WELLS, REPRESENTING OHIO FARM BUREAU

Mr. WELLS. I think it is obvious. The Ohio Farm Bureau is represented by 86,000 family memberships in our State and we do welcome this opportunity to appear before your committee.

Burley tobacco is a major cash crop for many Ohio growers. We have burley tobacco grown in 25 Ohio counties. We grow cigar tobacco in 29 Ohio counties. As a matter of fact it ranges fourth in cash crops in Ohio, bringing into the State some $30 to $40 million a year depending on the season. There are over 10,000 allotment holders representing about 11,900 acres of tobacco. So you can see that we have many small farms in the southern part of the State that are virtually dependent upon tobacco and the tobacco program as their lifestyle.

We did vote pretty much on what the other farm bureaus have said, Mr. Long from Tennessee, and Ray Mackey from Kentucky. We do support the present program. We support a grower controlled assessment subject to an appropriate limit to underwrite the future losses on the sale of tobacco. We also recommend that the amount of burley tobacco on the leaf program be increased from 15,000 to 30,000 pounds. It was agreed by our group and everyone should be involved in it to expand our exports. In order to do this, of course, we must produce a quality product. We have had very few complaints from the growers in our State about the prices paid for the grading of the tobacco and also it is generally agreed that all forms of loose-leaf packaging should be supported.

Senator, again we appreciate the opportunity to appear before your committee.

Senator HUDDLESTON. Thank you very much.

I believe that completes our list of formal witnesses unless Mr. Griffith has shown up since we called his name the first time. Apparently he has not. We do have some time to hear from others that might have a question or suggestion.

Let me ask you to give us your name before you start talking and speak as loud as you can. We don't have a microphone in the back. You may come to the table if you like, but if you speak from back there, speak so we can hear you.

Mr. PASLEY. I am Alvin Pasley from Clark County. I understood you to say they want you to give the Secretary of Agriculture authority to cut the grades if we get too much of it.

Senator HUDDLESTON. Right.

Mr. PASLEY. I think that is bad. The other thing he said was to give him more authority next year and he will cut your quota to get the support price down. See, what I am talking about is too much tobacco 1 year and instead of lowering the support price cut your quota and go on and take it.

Senator HUDDLESTON. I think the whole question is one we are going to give careful consideration to.

Mr. PASLEY. You give the man power to cut the support price 3 years and he cuts 3 years. I would rather have it by the year if he has to have the authority to cut the price.

Senator HUDDLESTON. I guess the problem is if you cut the quota you are cutting all grades, even some that may not be in surplus. If you can deal with it surgically and just deal with those parts that are going to cause you problems, or might cause you problems such as big losses, that might not be a bad way to approach it. But it's a question that we are giving a lot of concern to because I, personally, have a lot of problems with too much flexibility on the part of the Secretary. I think we have got an excellent Secretary of Agriculture now who, as Senator Helms said, has learned a lot about tobacco in a short time, but we can't always rely on that, and it might not be to our advantage to give too much discretion to the Secretary.

Over here.

Mr. ASHCRAFT. I am Wilbur Ashcraft, a neighbor of Senator Huddleston over here in Meade County. I have a few points I would like to bring out.

Senator HUDDLESTON. All right, sir.

STATEMENT OF WILBUR ASHCRAFT

Mr. ASHCRAFT. I started farming about the same time that Mr. Perkins' granddad did and I believe Mr. Harris will bear me out that his granddad had started 6 years earlier and he's a dirt farmer yet. I remember an old darky that farmed with us that year and he raised 1½ acres of tobacco and he said if I don't get $35 for my tobacco crop, I am not ever going to raise another crop. The total crop brought $35. He got $17.50 of that and he never raised another crop on his own. That's the same year that some people didn't get that much for their crop. They told one man he had to bring a chicken back with him tomorrow to pay for selling his tobacco. He brought two chickens back and they said, "You only need one," and he said, "Yes, but I got another load to bring back tomorrow."

You mentioned giving the Secretary of Agriculture more authority or responsibility to control administering our price support program. The only thing I want to say is I think he ought to be kept in as limited legislative restraint as you can. Don't expect him to do the whole thing. Try to put a limit on the authority he has to cut the base or price support. The growers want legislative restraints more than depending on the Secretary to run the program for them. On this pool that takes care of our surplus tobacco, I certainly would like to think that if we are going to go to a no cost program that we could stand the administrative expense of running these pools as growers rather than depending on the Government to provide this expense. I would be glad to contribute my dollar per 100 pounds on tobacco that goes into the pool so that it is our program working for us instead of for the Government.

Another thing, we should give plenty of respect to the people who are selling our tobacco. They are the ones that sell it and bring in our income. To give them their respect we have to reduce support prices on grades that do not sell. That is what has to be done. Back a few years when the market changed, the pool support price brought the price of these lower grades up, the market had to buy these. The market continued this trend, and we have the same price for all grades now.

Another problem facing tobacco is the health scare. If the national health people demand to change the health warning on cigarette packs, I would like to ask, Senator Huddleston, if you change that, at least put some fellow's name on this new warning and not just say the U.S. Government says smoking is dangerous to your health. If nobody puts their name on it, there is no use in it being there at all.

Senator **Huddleston**. It is under consideration now by the committee.

Mr. **Ashcraft**. Also, these forces that are trying to knock the program out and trying to take the respectability away from the tobacco industry, I think we should hit them with a new attack. I know Senator Huddleston and our people here are with us, but there is another defense that you can give when they say they will knock the program out.

They are already levying a tax on the tobacco so we can say if you are going to take the respect out of raising tobacco, if you say it is dangerous to your health, and we shouldn't use it, quit taxing this product because if you tax the product you are collecting money off of it and adding the respectability and support of the U.S. Government for that product.

Another thing facing us is the change of bases and you are really not considering that today but you realize that there is this effort to change the way the bases are set up. They say get it in the hands of the producers. It looks to me like that is going to wind up a way to give it to the big producers and taking it away from the smaller producers. As the gentleman said, he wanted to raise the 15,000-pound limit. If Mr. Perkins gets 15,000 pounds, that is all of the tobacco he can raise, but his dad has another farm and I am sure he can lease another 15,000 pounds, so that is 30,000 pounds on their own. Then they can rent their neighbor's farm and lease that 15,000 pounds there and so with the limits we got now they can go out and lease more tobacco than he can raise. We can make the program more equitable, you have problems and you ask how to change this program to liberalize the program a little bit, but liberalizing the program is not going to help the fellow that wants to raise 30,000 pounds. He is going to get bases at no cost. You can sell bases but it is going to cost the other fellow for the bases. We need to keep the bases essentially on the land as they are at present.

I guess I had better quit and let somebody else talk.

Senator **Huddleston**. I appreciate it. You have covered a lot of territory there and you have given us something to think about, and identified some of the problems we are facing. Thank you. There is a hand up back there.

STATEMENT OF ED RUGGLES, JR.

Mr. **Ruggles**. I am Ed Ruggles, Jr., and I would like to present several views of my own pertaining to this hearing and two others that have been held across the State.

First of all I would like to welcome you and your staff to the bluegrass, the heart of the bluegrass, which is the heart of the burley industry. I think that is important and I am sure everybody is aware of it, but this is the burley tobacco area. These statements are made on my own and express my own views on the material and insight picked up from these committee hearings.

First, I would like to address the local change ideas that have been thrown out. Personally, I view the quota on viable working farm that it can in no way be taken away from the landowner and given to the crop grower at the discretion of some outsider. I believe that quota goes with the farm. It was bought with the farm. If no tobacco is grown on that farm for 2 years, then I feel like that crop quota should stay with the farm and if it is not grown thereafter for 10 years, or 5 years, that quota should stop. I don't think it is right for something a person paid for to be taken away from him. If the farm is sold and is a nonfarm use, then I believe that the owner has forfeited his right to grow a crop, and tentatively, I think the only way it can be done is to take it back and let it come to the ASCS office for them to work out. I believe, if I understand some of the people, they said they would like to see it auctioned. I don't believe that would be a fair or equitable way to distribute it under the quota system in any county, at least in any situation that I am familiar with. For the sake of modification, to lease it to an adjoining county, I think, would be feasible or practical. I don't believe that across the State leasing would work out. It would be too cumbersome for the ASCS office to handle it.

As far as the Secretary of Agriculture is concerned, I don't even pretend to understand all of the stuff you all have talked about. It is too difficult for me to comprehend, but I believe as sure as I am sitting here, that he could weather the political pressure put on him as far as changing the quotas up or down.

Finally, I don't understand a segment of our society, and I am talking about the burley farmer, who is the foundation of the burley industry and that supports a multimillion dollar industry, having to shoulder any additional fees or costs at this time when that economical policy is causing almost all segments of our Nation to have to tighten up. I don't believe the American farmer, or the Kentucky farmer in general, or the burley tobacco farmer specifically, should have to back up and regress anyone or any program which would penalize productivity, and I believe that is exactly what is happening in this country.

I am afraid that we, as professionals—maybe I am not but the people that grow burley tobacco are, and they are good ones—that they are possibly being groomed to be the whipping boys for the fiscal policies. The burley farmer is being asked to compensate for and flex the economy and to carry it on his shoulders.

We have some proposals and as I understand it, the grower will be asked to grow a crop, pay to sell it, and pay grading fees for the crops, and when you take the fluctuating prices that are up in the air, and so unpredictable, and I don't know if it is relevant or not but I understand that the tobacco companies are paying over twice, easily over twice as much for advertising as they pay us for our crop.

Many people have made statements, outsiders who don't understand the burley industry. I don't fully understand, and I am sure many of the farmers who are here in the audience fully understand the ramifications of what we are talking about. Yet, the magnitude of the system in which we set all of our controls of our crops is a financial empire, it seems to me. Yet, here we are the cornerstone of the whole burley industry and we will end up the way things are going in the Congress right now, with individuals who aren't really interested or understanding the amount of money they are suggesting that we contribute to keep the control program that we don't honestly have any true control of.

I think back and I believe that if these checkoffs, fees, et cetera, that we are talking about having to pay are financially invested properly and are disseminated throughout the financial framework of the program, then we should be able to operate the program at no net cost because we are talking about increasing the base this year to 700 million pounds.

In Kentucky we grow a quality of tobacco not normally touched by quality anywhere and I feel if there is any truth in quality being needed, then we have no problem at the grower level. I thank you.

Senator **Huddleston**. Thank you for your testimony.

During the course of the hearing today and the other hearings held both here in Kentucky and in the other States, as I indicated at the beginning, everybody's interest connected with tobacco is not precisely the same. Our problem and our responsibility is to accommodate those interests in a way that everybody will be served to the best extent possible. It is information that we can gather at these hearings and others that enable us to try to accommodate as many interests as possible. Your testimony will be very important to us. While our interests might be slightly different at this particular level, I think in the final analysis everybody's interest in tobacco is the same and that is protecting the program, and protecting the program is going to require a united effort, unanimity in what is finally developed, and in developing it we must take into account the across-the-board interest of the tobacco program. All right.

Mr. **Sharp**. You promised to give me a hearing this afternoon.

STATEMENT OF SAM RUTLEDGE

Mr. **Rutledge**. I am Sam Rutledge, Shelby County farmer. I was just wondering if the tobacco quota that goes out is taken away from the landowner on account of subdivisions, or commercial development, or other development could be left in that county to be distributed through present growers or new grower allotment. As I understand the new grower allotment, it is pretty near impossible to get a new grower allotment because they estimate the income on the farm with the small allotment that he is asking for. The main thing I am wondering is if you keep that quota in that county would there be a way to provide a way to get it to actual growers.

Senator **Huddleston**. Even if there are not enough there to qualify under the present requirement of having 50 percent income on the farm, it would still go to the new growers?

Mr. **Rutledge**. All go to the new growers but not to another county.

Senator **Huddleston**. Stay in the same county. It's worth considering. Anybody else?

Dr. **Ratliff**. Roland J. Ratliff, Mount Sterling, Ky., farmer in Bath County. Senator, I notice that I have an unsolicited partner all the time in selling, and I would like to suggest that my partner, warehouseman, share in the costs of this program, not just the program, but the other people that benefit pay their share in it. Thank you.

Senator **Huddleston**. Chances are, not a grower in the house will disagree with that. All right, Mr. Sharp.

STATEMENT OF JAMES SHARP

Mr. **Sharp**. What I am going to say is going to be very different entirely from what has been said by everybody that has been here today, at least the impressions I got, and Mr. Huddleston is trying to determine in his mind what ought to be done. We are governed by certain limitations and since the other people qualified who they were, for those who have never heard of me or don't know me I would like to state my qualifications. It will just take me a minute and then I will get down to brass tacks.

I grew tobacco back in 1930 just like a few of you, and in that year quality tobacco brought 8 cents a pound because I sold tobacco for 8 cents a pound that year. I paid income tax that year and have been paying ever since.

Now, if you have ever been in court the first thing the judge asks you is if you are qualified, so I am going to answer the first one that I am qualified and then get down to business.

I am one of the major growers of tobacco in the State of Kentucky, me and my boys. We grew it ourselves. Most of the tobacco in Kentucky and probably 9 out of 10 people who spoke here today do not grow it themselves and the broad overall cost is trying to be put on the people who own the land. The people who grow it on the halves have nothing left when they settle up with their landlord and pay their interests and pay their costs. A good tenant today is demanding 60 percent of the crop and if you don't give 60 percent you are not going to get a top tenant in Fayette County.

Now, I will state what brings me here. First, I have been a—the very first grading system put in Lexington was put in Clay Warehouse and I was the one that insisted that Mr. Clay put it in, and that program started in 1934. There is no doubt that the co-ops have done a good job in handling the market so far, but the whole idea of tobacco has changed today. There is probably only one man here that knows what a good grade of tobacco is and why is it a good grade of tobacco. The "Burley Boys" have fell into it because of the cancer scare. They have got to have tobacco that will meet three criterias. One of them, it must have flavor. The second is that it must keep a cigarette burning, and it must blend. Now, very few of the farmers know what is the quality today. A lot of people that had beautiful yellow tobacco wondered why the companies wouldn't buy it. Most of the yellow tobacco will not keep burning. It will not help keep your pipe burning and that is why I think the major reason why the brown dark tobacco that is sold on the warehouse floors brought practically the same price, or identical the same price, if it showed that it had all three of these qualities, and those qualities are determined by, No. 1, it has got to be brown in color which indicates to the buyer that the tobacco is ripe. No. 2, it has got to have burning quality, and have waves and springs in the leaves that help the cigarette to draw and burn. Now, some of the tobacco that looked too yellow was not worth by grade one-half of what it brought, but it had these three qualities in it and that is the reason they are buying it. Now, I don't know and I have been here a long time and I have sold, or our family has sold approximately a seventh of the Lexington market for at least 15 years, and we raise our tobacco and distribute it ourselves and none of our tenants sold it. I think I have qualified already.

I was county committeeman of Fayette County 3 years during the 1939–40 war, and as such I know what goes on with extra acreage that they are going to give out each year, and certainly some things need changing and I think I can be of aid to Mr. Huddleston, if you want some advice on any of these lines. I am glad to help you in any way I can.

But, to get into it—the present tobacco growers programs were started in 1934 when the farmers were barely able to hold on to land settling into a stage of disfertility. The program has been most successful putting the tobacco farmer on a sound financial footing while at the same time establishing a rate of farm fertility unsurpassed in the past century. Nearly all of the farmers now have used crop fertilizer and most of the people take care of their land. So, all of that is good but that program in my mind is absolutely obsolete today. The only people who are going to lose on this deal is the farmer himself. Every man who has come up has other interests than growing tobacco and very few of those who have been up here actually grow their own tobacco. Now as far as Mr. Stokes, I would like to say that we actually grew his tobacco 3 years for his father. So I know what I am talking about. I have loaned many a farmer money and I can tell you one thing—I can shake every man's hand in here and tell you whether he works in tobacco and how long he has worked in it. So the thing we have got to do has never been answered yet and that is we have got to make this crop so it does not cost the Federal Government 1 cent. The best way to do that is to take it all out of their hands completely and put it in your hands. The dream of every farmer in the United States is that some day we will get parity price and I think we have got a damn good chance to get it this coming year. Most of the people in here are going to disagree with me but think about it.

Now, there are only three people interested in my opinion in the tobacco business, three people really interested, and of those three I will add one more who you might say owns one-half the income. That's the Federal Government and State government. They consistently raise the cigarette tax. Now, why not get in there and let us raise the cigarette tax and guarantee to each farmer that he will receive parity. I am not talking about $1.80 because when I went to Washington 6 years ago or 7, Mr. Huddleston wasn't there and I went before what they called an Economic Advisability Committee and here is what they told me. They said "Jimmy, you've got a sound program economically but no one will ever pay $1 a pound for tobacco." Now, wasn't that something. A dollar a pound—a dollar a pound and we would all be broke right now. Now, we have the golden opportunity now and I know Mr. Nelson wasn't going to like this too much but when he thinks about it, he will think a little bit more about it. So why not get in the box, and get our 2 cents on 4 million packages of cigarettes to guarantee the Government will not have to put up a dime no way, shape or form. At the same time we will allow the tobacco companies to determine how much we grow each year, but all we ask the Government to do is preserve the poundage and allotment as it is now, to start with.

Now, here is how it works and you got to listen closely because you won't understand part of what I am saying. If you don't, I hope you will ask me the questions and Mr. Huddleston ask some questions and I can refute most of what has been said here today. Now, 2 cents a pound would probably drop to 1 cent a pound and would probably drop to where you don't have to put up any money to make it work, which you think that's impossible. I'm having a dream, but it's not a dream because when the companies are required to, not required, when the companies willingly go along with 2 cent a pack on cigarettes, they know what is going to be put on by the States in the United States, why not guarantee the farmer first and give him parity for the first crop that ever brings parity. We have got a whole lot better chance of getting parity than getting a program of adding a third ballplayer's game to this setup. Why would we want to hire us another thing to store tobacco. What the farmer does not want and what is breaking the farmers in the United States today is that no one has told them how to sell a crop economically, and the best way to do it is to let them have their cut first because they produce first. They are the main ones in this and of the tobacco produced in the United States, burley, most of it, is not produced by the landlords but is produced by the tenants and the tenants are being forced out of business because they can't even now take their wife to the hospital. They can't even now have their teeth fixed, a lot of things they can't do, but if they have a guarantee that they are going to get parity price. And if this program is left alone, I am here to state, and I want you all to remember, you may work for the State and farmers because first, Mr. Huddleston admits that unless we get this thing tax free before we open up, we might not get price support.

Senator HUDDLESTON. Are you talking about getting it tax free? I believe I said cost free.

Mr. SHARP. Yes, if we don't get it cost free to the Government, there is a possibility we won't have support, not a probability but a possibility.

Senator HUDDLESTON. I don't dispute that. There is always a possibility.

Mr. SHARP. All right, that is all I wanted to hear. Now, just listen to me. Don't give me any applause at all. I don't want it because I can't keep this in my mind. If I had to try to pick one of the answers 7 years ago, I wouldn't be here today because I own no land myself but I own no warehouse myself. I got a mortgage on several but I don't own them. I have operated more warehouses than anybody else in the burley belt. I have sold more tobacco than any living man at auction, so I think I know the whole damn deal. I know where the side cuts are. I know where the bad parts in the ASCS office are, and I thank the Lord for that because it weighs on my mind every day, and I have nothing to gain for my time except to get to where I can take it to the farmer.

He doesn't know we have it yet. He doesn't know that we haven't got an absolute guarantee on this tobacco crop support. The tobacco companies don't know it. I didn't know it until I found out this morning. He doesn't know that they are going to lose the advanced cost of living thing next year. We will lose it, but the great loss you are going to lose, and that's coming because I know it is going to happen. I have been through every part of it. I have seen tobacco crops drop 10 cents a pound in 2 hours. When it comes we are going to have a crisis, and unless it backs down and the dollar becomes sounder, it is going to drop all at once and the farmer is going to be holding the biggest bag he ever got hold of in his life. Now, if you don't think so, think back when you go home and talk to your neighbors because it is very important.

Now, in regard to some of the things that I put down that I want to clarify here, and that is that the companies themselves would be the ones—the three people involved in this tobacco deal outside of the Federal Government who is the big man in it, the State man is in it, and the boys who buy this tobacco for the manufacturer, and the manufacturers are certainly in it, and the third party—I will have to think about it because I can't think of it all—I am going to tell you in a few minutes the one more party involved in this deal and that is the guy that smokes. Now if the guy that smokes has been told all the warnings on Earth that it is going to kill you, and I think the same thing. I think it is going to kill you. I think any fool that takes smoke down in his belly is going to suffer. That's all, but I have never smoked a cigarette in my life. I have made a fortune on it. I know that I have smelled tobacco all my life and had tobacco stains on my fingertips all my life but I also know that it has a hell of a lot of good things about it.

No. 1. The only way we built this country is by selling the rest of the fools in the world tobacco. That bought the steel instruments that we had to have and people who had the minds to make the steel into something. We had a certain something and everybody knew it. We built everything. We got to. Now, we are giving way to the Japanese, $18 billion a year, and they are smart people. They will invest that money before someone——

Senator **Huddleston**. Let me interrupt you a minute.

Mr. **Sharp**. I am getting in politics. I will get out of it but something you ought to find out because people are worried like hell about the balance of trade.

Senator **Huddleston**. I am worried about it too but that is not the subject of this hearing.

Mr. **Sharp**. I know that but it is very important.

Senator **Huddleston**. I understand. Let me make just a brief comment on some of the things you said and, of course, we welcome any further comments you might want to submit to the committee. But, I don't want to keep the audience longer. Also, some of the staff have to be on an airplane, to go back to Washington. However, there is some thought, among thoughtful people who are considering this program that what we are about to do by making it a no cost program, could open the way, and I am going to say this very carefully because nobody with the exception of Mr. Sharp has put this down in such a way that it would be something firm, and that we could move away from a Government program and have a self-supporting program somewhere down the road. There is one key problem with that, and that is the ability to control production. Whether you can do that outside——

Mr. **Sharp**. That is what I want to answer now.

Senator **Huddleston**. You have an answer to that?

Mr. **Sharp**. Yes sir, I got a good one.

Senator **Huddleston**. Fire away.

Mr. **Sharp**. I got a good answer. I got an answer for Mr. Nelson on exports too that goes right along with this program, but if I am disturbed it is hard for me to keep all of this in my mind because the program I had 6 years ago is obsolete, just like the program you are fixing to go into, and——

Senator **Huddleston**. What I would like to know—

Mr. **Sharp**. To control production, the tobacco companies themselves control production. How are they going to do it, and quality at the same time. Listen to how you control quality.

Senator **Huddleston**. Let's take one at a time. How do you control production?

Mr. **Sharp**. They go together.

Senator **Huddleston**. They do what?

Mr. **Sharp**. They go together.

Senator **Huddleston**. They go together?

Mr. **Sharp**. Yes, they go together.

Senator **Huddleston**. Collusion could lead to a violation of the antitrust law.

Mr. **Sharp**. First, take quality control. That's the most important one. If we grow open grain, ripe tobacco which isn't loaded with ammonia-nitrate and chemical fertilizer, we will come up, especially in the central bluegrass, a tobacco that is so desirable that every company in the business wants. Now, if that farmer who wants to grow a quality tobacco which is really the future of burley tobacco, we will get it by allowing that farmer to sell his tobacco on open market with no fracus. Now, Mr. Huddleston wants to know how that is going to control production but that does control quality because if the man himself gets 5 cents over the market on his sale of tobacco, then the companies will come along and if they don't give parity, something hard to get and something we all want, parity, the crop will be reduced by the amount they bought under the parity price.

Senator **Huddleston**. Reduced by who, and why? Reduced by whom?

Mr. **Sharp**. Here is the way to reduce it. Say that the parity price on tobacco is $2. Next year the companies have made their recommendation on how much they want. Now, if they fail to pay $2 and only pay $1.80, then 10 percent of the next crop will be reduced. Therefore, let them do the reducing and control the pricing and if we don't like it, then we will grow corn.

Senator **Huddleston**. I tell you what I think would be helpful, if you put those ideas in writing and get them to us and we will have them for consideration.

Mr. **Sharp**. I don't want to put it in writing because you all won't understand it. Wait a minute. When you interrupt me you are hurting. If the tobacco companies—I have been through this in the legislature and I know it will work—if the tobacco companies want quality and handle quality products, it will be in their hands if they want quality products, they will take it. They are going to have to suffer one way or the other. If they come along and say well, we did want it but money has gone to 30 percent interest and this thing is about to blow up and I only want 20 percent less than I thought I wanted.

Senator **HUDDLESTON**. We appreciate it.

Mr. **SHARP**. Let me get through because everybody is going to stay a few minutes later.

Senator **HUDDLESTON**. Everybody but me.

Mr. **SHARP**. I will pay your airplane ticket home. I will see that you get there.

Senator **HUDDLESTON**. Let me suggest to you, Mr. Sharp, that you——

Mr. **SHARP**. If I don't get support here I will never get it. I will only be 5 minutes. Let me finish up. Let me have 5 minutes.

Senator **HUDDLESTON**. Go ahead.

Mr. **SHARP**. The thought again is that, No. 1, we can meet the requirements of the Government, take them out of it real quick. No. 2, the big company that Mr. Nelson represents, one of the biggest buyers on the market, they should like it because it has one thing attached to it and it can be worked out. The surplus tobacco that is grown each year should not be allowed to be sold until the end of the second season. Grow all of the tobacco you want. Sell the pounds on the wide-open markets throughout the world at open prices. Anyone wants to grow extra tobacco, let him grow it. It's just like whisky. Let him store it.

Senator **HUDDLESTON**. He can grow it but he can't sell it.

Mr. **SHARP**. He can grow it but he can't sell it.

Senator **HUDDLESTON**. That is what you are proposing?

Mr. **SHARP**. No; I am proposing that he can sell it. He sells it at the end of the sales season on the warehouse floor and—what's the name of the commissioner that grew his own tobacco?

Senator **HUDDLESTON**. Mr. Harris?

Mr. **SHARP**. Yes, Mr. Harris can sell all he wants to grow and he can sell it at the end of the season and get whatever tobacco that would be bonded that has to be sold by Mr. Nelson's company because he is one of the big exporters and he has got something to deal with, sort of like starting here behind him.

Senator **HUDDLESTON**. What if Mr. Nelson waits until the end of the season to buy?

Mr. **SHARP**. Sir?

Senator **HUDDLESTON**. What if Mr. Nelson waits until the end of the season before he makes any purchases?

Mr. **SHARP**. He will never get any tobacco, or he won't get what he wants. They are in there from the start. They are always on the market. You can always get a square deal from them and I think that they will think about this a little bit, but I know that it will be hard to convince Mr. Nelson but this thing will work. Have I got another minute?

Senator **HUDDLESTON**. All right.

Mr. **SHARP**. I got 1 more minute and I want to drive home one more argument and it is going to be hard for me to think about anything in

1 minute because all of this stuff is rambling through my mind, and I want to use this other minute, but I will gladly come at my expense to Washington and sit down with the boys and advise the economics of what I am talking about. I have been before them before and I will explain anything they want to hear and what you are doing, and I will explain anything you want to you and show you that what you are doing is wrong.

It is almost like the baseball situation. We are going to hire another outfit to store this tobacco. The worse thing a farmer ever did was to allow tobacco to be stored. Now, a lot of markets are paid when one major company, or two major companies find out that another company doesn't have nothing on grades. Isn't that right, and who knows better than us because I have seen it done too many times.

Senator **Huddleston**. Well, we welcome any suggestions from anybody. Let me say to those of you who are here and who did not get an opportunity to ask questions or make suggestions, any question you have, or any suggestion, or any comment on what has been suggested here will be welcome. The hearing record will remain open for some time and if you want to mail something to me or submit it directly we will see that it is given full consideration. I think all of us have the same objective and that is to develop the best program that we can that can be sustained and perpetuated throughout the years. That is what we are trying to do.

Again, I want to thank all of the committee staff who are here from Washington to help make this possible, the officials here at the University of Kentucky who have taken care of us so well, the Burley Council who has provided refreshments, and most of all you who have come and appeared as witnesses and participated in this meeting.

I convey again the thanks of Senator Helms, our committee chairman, for the information you have given us and the help it will be in developing a final outline of the program. Thank you very much.

[Whereupon, at 4:40 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. ALBEN W. BARKLEY, COMMISSIONER OF AGRICULTURE, STATE OF KENTUCKY

As Kentucky Commissioner of Agriculture, I want to both welcome you on behalf of myself and the farm families of our State who produce burley, air-cured and dark fired tobacco. We all appreciate your interest in solving the problems that face the tobacco industry.

Critics of our programs have made both individual and legislative attacks, ranging from calling the tobacco program a give away project to attempting to completely eliminate the program. To those who accuse our program of being a give away policy, I can only counter by saying, first of all, that the beneficiaries devote many back-breaking, sweaty, dirty hours to produce each acre of tobacco, and then the only governmental assistance is to insure a minimum price for their effort. If all give aways were like this, there would be a lot less takers.

To those who wish to see an elimination of tobacco programs, I can only hope that they are uniformed. The farmers of Kentucky only want a method to insure that the fruits of their labor are protected, nothing more.

I commend the legislators of the tobacco-producing States and their allies in once again turning back the anti-tobacco forces, by insuring a no net cost tobacco program. I can assure you that in Kentucky your efforts are sincerely appreciated. I can also assure you that the tobacco farmer wants a program that is self-supporting and viable.

The four-point program Secretary Block submitted to Congress is responsible and addresses the possible problem areas of our industry. This report no doubt includes the input from the concerned and dedicated persons seated in this room. Secretary Block's willingness to work with Congress and producer groups on each proposal is a true indication that farm leaders, industry representatives, and producers of all types of tobacco can unite to insure that our tobacco program continues.

I am pleased to offer the services of the Kentucky Department of Agriculture. if we may assist you in any way in your efforts to insure the continuation of a stable, progressive tobacco program.

[The following material was submitted by J. W. York,[1] U.S. Department of Agriculture, Agricultural Stabilization and Conservation Service.]

RECOMMENDATIONS OF THE SECRETARY OF AGRICULTURE FOR ACHIEVING A NO NET COST TOBACCO PROGRAM—A REPORT TO THE CONGRESS UNDER THE AGRICULTURE AND FOOD ACT OF 1981—JANUARY 1982

SUMMARY OF ACTIONS AND RECOMMENDATIONS

The Agriculture and Food Act of 1981 expresses the intent of Congress that the Secretary carry out the tobacco price support and production adjustment program at no net cost to the taxpayers other than the cost of administering the program. To achieve that objective, the Secretary is directed to take by January 1982 such administrative action as is within his authority which he deems necessary. If such actions would fall short of achieving a no net cost program, the Secretary is directed to recommend to Congress by January 1982 any supplemental legislation the Secretary believes necessary to achieve that objective.

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[1] See p. 205 for oral reference.

This report outlines administrative actions which the Secretary is taking to achieve a no net cost program. The report also sets forth recommendations for legislation which the Secretary believes is necessary to supplement such administrative actions.

The following assumptions were made in preparing this report: (1) The [illegible] net cost mandate is effective beginning with the 1982 crop and exclude losses which the Department projects will occur on loan inventories of the 1975–80 crops. (2) The term "administrative expense" means the cost of administering the tobacco program at the national level in Washington, D.C., and through the Kansas City ASCS Management Field Office, State and county ASCS offices, and the cost of testing tobacco to assure the merchantability of loan collateral. (3) The term "no net cost program" means that, except for administrative expense, CCC will, over a period of years, incur no net realized loss in the operation of the price support and production adjustment program.

ADMINISTRATIVE

The administrative actions being taken by the Department are as follows:

1. Allow producer associations, through which price support is made available to producers, to increase the amounts deducted from price support advances made to producers. Amounts so deducted are used by an association to pay its overhead expenses. Additional amounts needed to pay such expenses are loaned to the associations by CCC. Increasing the amounts deducted will reduce the amounts loaned by CCC to the associations. Present regulations limit the overhead deduction to one dollar per hundredweight. This limit is being removed to allow associations to establish a larger deduction with CCC approval.
2. Implement procedures whereby all or a portion of the net gain realized by a producer association from the sale of one crop of loan tobacco would be available to offset losses incurred by the association on other crops. Procedures for implementing the new policy will be developed in consultation with the associations.

LEGISLATIVE

Implementation of the foregoing administrative actions will substantially reduce the cost to taxpayers but will not assure a no net cost tobacco program. Legislation, therefore, is recommended that would:

1. Establish a fee which would be collected from every producer marketing tobacco. This fee would be used to offset losses to CCC arising under the tobacco price support loan program.
2. Authorize the Secretary to adjust, under certain circumstances, price support levels for the various kinds of tobacco. The inflexible support formula mandated by current law does not afford the Secretary discretion to adjust price support levels to compensate for changing economic and marketing conditions.

PREFACE

The Agriculture and Food Act of 1981, Public Law 97–98, expresses the intent of Congress that the tobacco price support and production adjustment program be administered in such a manner as to result in no net cost to the taxpayers other than such administrative expense as is incidental to the implementation of any commodity program.

Section 1109 of the Act directs the Secretary to promulgate by January 1982 such regulations and policies to accomplish this objective as are within the Secretary's existing authority. The Secretary is also directed to recommend to Congress by January 1982 any legislative changes the Secretary believes are necessary to achieve a no net cost tobacco program.

This report outlines administrative actions the Secretary is taking to achieve a no net cost tobacco program and sets forth recommendations for legislation which the Secretary believes is necessary to accomplish such objective.

In preparing this report, the Department has made the following assumptions which it believes are consistent with the intent of Congress as expressed in Section 1109 of the Act. First, the no net cost mandate is effective beginning with the 1982 crop of tobacco and excludes losses which the Department projects will be incurred on prior crops. Second, the term "administrative expense" means the cost of administering the tobacco program at the national level in Washington, D.C., and through the Kansas City ASCS Management Field Office, State and county Agricultural Stabilization and Conservation Service (ASCS) offices, and the cost of testing tobacco to assure the merchantability of loan collateral. Third, the term "no net cost program" means that, except for administrative expenses, CCC will, over a period of years, incur no net realized loss in the operation of the price support and production adjustment program.

THE TOBACCO PROGRAM

A. Statutory authority

The tobacco program is comprised of two interrelated parts, price supports and marketing restrictions. Price support for tobacco is mandatory under the Agricultural Act of 1949, as amended. The Act authorizes the Secretary to prescribe as a condition for price support eligibility compliance by producers with certain marketing restrictions, including marketing quotas, which are authorized under the Agricultural Adjustment Act of 1938, as amended.

B. Program operation

Price support assures producers of tobacco a minimum price for their tobacco. The supply of tobacco is controlled through marketing quotas which are voted on by growers of each eligible kind of tobacco every three years. If quotas are approved by two-thirds of the producers voting in a national referendum, quotas become mandatory for all producers of that kind of tobacco wherever it is grown. The amount of the national marketing quota for each kind of eligible tobacco is announced annually. Only producers who comply with marketing restrictions are eligible to receive price support.

Funds to carry out the price support program are made available through the Commodity Credit Corporation (CCC), a corporate agency of the Government within the Department of Agriculture. Personnel are provided by ASCS through the Kansas City ASCS Management Field Office, State and county offices and the national office in Washington, D.C., which oversees all program operations.

Nine separate kinds of tobacco are currently eligible for price support. Two kinds—flue-cured and burley—comprise about 93 percent of all tobacco produced in the United States and Puerto Rico. These and most other kinds of tobacco are marketed through auction warehouses located throughout the tobacco producing regions.

Price support is made available to producers through thirteen producer-owned and controlled cooperative marketing associations (hereinafter referred to as "associations") (Table 1). As marketing agent for the producers, the associations enter into price support loan agreements annually with CCC. These agreements specify terms and conditions for making price support available to producers.

Producers who sell through auction markets deliver their tobacco to auction warehouses for sale. There the tobacco is weighed, displayed for sale on the auction warehouse floor, and graded by a Government inspector. Each lot is offered for sale to the highest bidder. If the high bid does not equal the price support rate for that grade, the producer can consign the tobacco to the association. For each pound of tobacco consigned to the association, the producer receives a price support advance, less any deduction authorized or approved by CCC.

Each association arranges for the tobacco consigned to it by producers to be redried, packed and stored. This tobacco serves as collateral for the price support loans made by CCC directly to the producer associations to cover the amounts advanced to producers and other price support related expenses of the associations. Loans mature on demand and are nonrecourse.

Tobacco collateral from each crop year pool is sold by the association over a period of years. Partial redemption of collateral is not permitted. As loan collateral is sold, the sales proceeds are remitted to CCC. When the entire crop year pool has been sold, if the sales proceeds exceed loan principal and interest, an overplus or net gain exists. From the net gain, CCC deducts a contractually agreed collateral fee. This fee is used to protect CCC against the potential loss of loan tobacco since CCC does not require that loan tobacco be insured. Any remaining net gain is returned to the associations for distribution to their producer members unless other disposition is approved by CCC. If the proceeds from the sale of a crop year pool are less than principal and interest, CCC writes off the balance.

PROGRAM COST

A. *Historical*

The primary cost of the tobacco program, excluding administrative costs, is the loss which occurs when sales proceeds from a crop of loan tobacco are insufficient to fully repay the price support loan made to the association. Since 1933, CCC has loaned about $5 billion to associations. For crop year pools already sold, $57 million in principal was not repaid. Of this loss, $35 million occurred 20 years ago when the 1955 and 1956 crops of off-type seed variety flue-cured tobacco were sold. Unpaid interest owed CCC amounted to about $152.8 million, with about $120 million of this occurring before 1965.

During the most recent 10-calendar year period (1971–80), losses of principal were about $568,000. Interest losses during the same period were about $35 million (Table 1). At the end of calendar year 1981, outstanding loan principal on uncommitted stocks totaled $541 million.

B. *Projected*

Program gain/loss data shown in Table 2 represent totals for the various kinds of tobacco. For program administration, each kind of tobacco is treated as separate and distinct. Gain/loss projections for the various kinds of tobacco are analyzed as follows:

Flue-Cured.—Price support loans made to the flue-cured association for the 1982–86 crops are projected to show no loss of principal. However, interest losses are possible. With so many variables interacting—such as interest rate, support level, crop quality and utilization—several approaches were explored in an effort to estimate the magnitude of possible losses (Tables 3 and 4).

One approach to estimating potential interest losses would be to base them on projected loan activity. Based on latest USDA budget estimates of loan activity, no interest losses are projected for the 1982–86 crops. However, if the past 15-year average of loans were used, projections for the 1982–86 crops would range from substantial gains in some years to interest losses as high as $7.5 million (Tables 3 and 4).

To more accurately predict gains and losses and also achieve a better perspective of typical operations, a scenario was developed which contained a quality mix of good, bad and average years. As might be expected, years with less desirable quality tobacco, presumably due to unfavorable growing conditions, showed losses, while years with good quality tobacco depicting favorable growing conditions showed gains. This scenario showed an interest loss for the 1982–86 crops of $34 million, an annual average of $6.8 million (Tables 2 and 4).

Burley.—No losses of principal or interest are projected for burley tobacco because of its expected continued strong demand. Future costs to the program could occur because outlays for association overhead are relatively fixed and are now being absorbed from association reserve funds which were accumulated from previous gains. Reserve funds to cover association overhead for an extended period are not sufficient if the volume of tobacco coming under loan remains small.

Minor Kinds.—Minor kinds of tobacco, fire-cured, dark air-cured and cigar, comprise only about 7 percent of all tobacco produced in the United States and Puerto Rico. Unlike flue-cured and burley tobacco, losses of both principal and interest are projected because of limited loan volume and fluctuating demand for these kinds of tobacco. Projections for the 1982–83 crops indicate principal losses of $0.7 million and interest losses of $4.75 million, with 87 percent of these losses attributable to cigar tobacco (Table 2).

While losses have been comparatively small during the past several years, the potential for greater losses exists because the various kinds of tobacco are affected by fluctuating domestic and world demand. For instance, cigar tobaccos generally show small losses because of declining usage of the quality of tobacco that comes under loan. The cigar tobacco associations are small. In some years, they take under loan only a few hundred thousand pounds, yet they have fixed overhead costs which continually increase.

ADMINISTRATIVE ACTIONS

Through various administrative actions, the comparatively modest cost of the tobacco program can be further reduced. However, for the tobacco program to be operated wholly without cost to taxpayers, excluding administrative costs, supplemental legislation is required.

The following administrative actions, which should reduce substantially the cost of operating the tobacco program, are being taken with respect to the 1982 and subsequent crops of tobacco:

1. *Increase overhead deduction.*—For many years, tobacco price support regulations have required that associations bear a portion of the overhead costs they incur in connection with the loan operation. The regulations authorize the associations to recover part of their overhead costs from amounts deducted from price support advances made to producers who consign tobacco to the associations. The amount of the deduction has been increased several times over the years. With continuing increases in overhead costs for all associations and the downtrend in the volume of tobacco coming under loan, the present one dollar deduction per hundredweight is no longer sufficient to cover all overhead costs. If the amounts deducted do not completely cover the associations' overhead expenses, the associations borrow the difference from CCC. Amounts borrowed are repaid from proceeds of sales of loan collateral. Any increase in the overhead deduction would result in monetary savings to CCC. For this reason, price support regulations are being amended to remove the one dollar limitation and authorize the associations to make overhead deductions in higher amounts approved by CCC. Subject to CCC approval, each association will be authorized to establish an amount to be deducted, taking into consideration the overhead costs of the respective association. For example, the Department anticipates that the flue-cured tobacco association will establish an overhead deduction of about two dollars per hundredweight. A two dollar deduction should adequately cover that association's overhead costs.

2. *Apply the net gain realized from the sale of one crop to defray losses on other crops.*—Loan agreements currently in effect between CCC and the associations specify that the net gain from a crop must be distributed by the associations to producers on a fair and equitable basis unless another disposition of such net gain is requested by the association and approved by CCC.

The Department is instituting procedures whereby all or a portion of the net gain realized from the sale of one crop would be available to offset losses incurred by the association on other crops. Procedures for implementing the new policy will be developed in consultation with the associations. In prior years, CCC protected itself against losses of loan collateral due to destruction by fire, flood, theft and other causes by charging associations a collateral fee in the amount of one cent per month per hundred dollars of CCC loan principal outstanding. The fee was payable only out of the net gain. Since a net gain from one crop will now be available to be applied against losses on other crops, excluding losses which may be incurred in connection with the 1975 through 1981 crop years, the collateral fee will no longer be used.

Projections for the 1982–86 crops (Table 2) show a net gain of about $22 million for the flue-cured association and losses of about $34 million for a net loss of $12 million. Projections for the two burley associations for the same period show a net gain of $18 million.

LEGISLATION RECOMMENDATIONS

Implementation of the administrative actions discussed previously in this report will significantly reduce, but will not completely eliminate, the cost to taxpayers of operating the tobacco program. Therefore, the Department recommends supplemental legislation that would:

1. *Establish a producer marketing fee.*—A fee would be collected from each producer marketing tobacco. This fee would be established for each 100 pounds marketed by producers and would be used to offset program losses (Table 6). The Secretary should have discretion to establish the amount of the fee and to accumulate a reserve fund of such fees sufficient to cover potential program losses. The Department is prepared to work with producer groups, the Congress, and others to develop an effective program.

2. *Adjust price support levels.*—The Secretary, under Section 106 of the Agricultural Act of 1949, as amended, has no discretion in adjusting the support levels for tobacco. The formula for determining the price support level adjusts the 1959 support level by a 3-year average of the index of prices paid by farmers, including wage rates, interest and taxes (parity index). Over the years, this formula has increased the tobacco support price without regard to changes in production costs and prices of competing supplies. From 1971 to 1981, the support levels for each kind of tobacco increased 129 percent. Since the present formula was enacted in 1960, the U.S. share of world tobacco exports has declined from 30 to 21 percent. Imports of flue-crued and burley have increased from a negligible amount to about 15 percent of domestc use. The dramatic rise in imports caused the Secretary to recommend to the President that the International Trade Commission conduct an investigation under Section 22 of the Agricultural Adjustment Act of 1933, as amended, for the purpose of determining whether imports were interfering with the tobacco price support program. The International Trade Commission ruled in August 1981 that there was not sufficient evidence of interference to justify import restrictions.

Despite marketing quotas and acreage allotments, which substantially limit loan activity, the current high support level means that even a modest amount of tobacco coming under loan would require considerable loan outlays.

To insure a no net cost tobacco program, the Secretary must have discretion to adjust price support levels for the various winds of tobacco. Adjustment of the support levels could be accomplished in a number of ways. Various alternatives are being examined, including more market-oriented approaches. The Department is prepared to work with producer groups, the Congress, and others to modify the price support mechanism.

TABLE 1.—TOBACCO ASSOCIATIONS' OPERATIONS ON COMPLETED CROPS, CALENDAR YEARS 1971-80

[Dollar amounts in thousands]

Association	Loss of principal	Interest loss
Flue-Cured Stabilization, Raleigh, N.C	0	$32, 300
Burley Stabilization, Knoxville, Tenn	$18	537
Burley Tobacco Growers, Lexington, Ky	158	459
Dark Tobacco Sales, Farmville, Va	112	122
Eastern Dark—Fired, Springfield, Tenn	4	375
Western Dark—Fired, Murray, Ky	33	280
Stemming District, Henderson, Ky	0	511
Conn-Mass., Holyoke, Mass	174	330
Northern Wisconsin, Viroqua, Wis	0	0
Wisconsin Tobacco Growers, Edgerton, Wis	69	9
Cigar Tobacco Co-op, Bradford, Ohio	0	0
Puerto Rico Marketing, San Juan, P.R	0	0
Cosecheros de Tabaco, Utaudo, P. R	0	0
Total, principal and interest loss	568	34, 923

Source: Individual association's statements of operations. Does not include uninsured losses assumed by CCC (fire, storm, etc.).

TABLE 2.—SUMMARY: TOBACCO ASSOCIATIONS' GAINS AND LOSSES [1]

[In millions of dollars]

Tobacco association	Tobacco type	Completed crops [2]			1975-80 crops, on hand (projected results)			1982-86 crops, projections (5-yr close-out period)		
		Net gain	Principal loss	Interest loss	Net gain	Principal loss	Interest loss	Net gain	Principal loss	Interest loss
Major kinds (auction market deliveries):										
Flue-cured stabilization	11-14	50.8	0	5.9	60.1	0	3.5	[3] 34.0 [4] 22.0 [5] 41.0	0 0 0	7.5 34.0 0
Burley Tobacco Growers	31	30.0	.16	.33	None on hand			11.5	0	0
Burley stabilization	31	11.8	0	.30	None on hand			6.9	0	0
Subtotal, major kinds		92.6	.16	6.53	60.1	0	3.5	[6] 40.4	[6] 0	[6] 34.0
Minor kinds (auction market deliveries):										
Eastern Dark—Fired	22	0	.002	(*)	2.33	0	0	0	0	.04
	35	0	.004	.07	.31	0	0	0	0	.22
Western Dark—Fired	23	.04	(*)	(*)	.60	0	0	.28	0	0
	35	.01	.034	.28	.17	0	(*)	0	0	.10
Stemming District	36	.05	0	.51	.10	0	0	0	0	.17
Dark Tobacco Sales	21, 37	.01	.124	.13	.19	0	0	.06	0	.10
Subtotal, minor kinds—Dark		.11	.164	.99	3.70	0	0	.34	0	.63
Minor kinds—Cigar (direct producer delivery):										
Conn-Mass	51, 52	0	.075	.23	0	.14	.25	0	.21	.49
Northern Wisconsin	55	2.2	0	0	0	0	0	0	0	0
Wisconsin Tobacco Growers	54	0	.104	.01	0	.06	.01	0	.30	.18
Cigar Tobacco Co-op	42-44	No recent history			0	.05	.09	0	.21	.75
Puerto Rico Marketing	46	0	0	0	.06	.03	1.19	0	.01	2.50
Cosecheros de Tabaco	46	No recent history			.02	(*)	.39	0	(*)	.83
Subtotal, cigar kinds		2.20	.179	.24	.08	.28	1.93	0	.73	4.75
Total, all kinds		94.9	.50	7.8	63.9	.28	5.4	40.7	.73	39.38

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[1] For each association, the gains, principal and interest losses are the summation of 1 or more crops; i.e., gains and losses do not occur in same year, but may represent total of gains for 2 yr and interest losses for 3 yr, where 5 yr are depicted. No date included for 1981 crop—marketings not completed.

[2] Most recent 5 year closeout period as compiled from association records. Major kinds—1976–81 Closeout period. Minor kinds (Dark)—1972–77 closeout period. Minor kinds (Cigar)—1969–80 closeout period.

[3] Scenario 1, table 3.

[4] Scenario 2, table 4.

[5] Scenario 3, table 4.

[6] Use scenario 2 for these totals

* Less than $5,000.

Note: No projection is made in this table for uninsured losses assumed by CCC (fire, storm, etc.). Such losses for the past 14 yr were $8,500,000 with $5,300,000 caused by a single fire.

TABLE 3.—FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORP., PROJECTIONS FOR 1982-86 CROPS: SCENARIO 1, BASED ON 15-YR AVERAGE, STRAIGHT LINE

								Million dollars						
	Dollars per cwt		Million pounds quantity received		Million dollars		Quantity remaining end of 5 yr, million pounds	Unpaid principal and interest			Gain or (loss) after 5 yr			
												Drop carrying charges		
Crop year	Loan rate	Other costs	Green [1]	Dry [2]	Principal loaned [3]	Interest accrued [4]		Principal [5]	Interest	Total principal and interest	End of period	1 yr [6]	18 mo [6]	2 yr
1982	176.00	27.00	127	108	278.3	100.9	62	121.0	100.9	221.3	34.8	11.8	*(4.3)	(9.9)
1983	193.60	29.00	127	108	304.6	110.6	62	131.2	110.6	241.8	40.3	*14.9	(2.5)	(8.1)
1984	213.00	31.00	127	108	334.8	121.5	62	144.4	121.5	265.9	44.1	16.2	*(2.4)	(9.2)
1985	234.30	33.00	127	108	367.0	133.2	62	157.7	133.2	290.9	50.0	*19.1	(1.0)	(8.0)
1986	257.70	35.00	127	108	402.2	146.0	62	172.0	146.0	318.0	57.0	23.0	*(.8)	(8.0)

[1] Average past 15 yrs.
[2] Dry weight 85 percent yield of Green weight.
[3] Principal loaned included advances to growers plus receiving, processing and storage costs.
[4] Interest is computed at 12 percent 1st yr and 10 percent for 4 yrs.
[5] Unpaid principal represents sales at average 5-yr price (see pricing schedule).
[6] Either of these are probable considering quantity of tobacco at end of 5-yr period.
* Items are projections selected.

PRICING SCHEDULE

Crop	1 yr.	2 yr.	3 yr.	4 yr.	5 yr.
1982	$283	$311	$342	$377	$414
1983	311	342	377	414	455
1984	342	377	414	455	500
1985	377	444	455	500	550
1986	414	455	500	550	605

METHOD FOR DETERMINING PRINCIPAL LOANED,[3] INTEREST,[4] AND PRICING SCHEDULE—1982 CROP

	Million
Price support advances:	
Loan rate × Green pounds received ($1.76 ×127)	$223.52
Additional costs:	
Other costs × Dry pounds received (receiving pricing, storage, overhead) ($0.27 cwt. × 108)	29.16
Total	252.68
Add 2 percent for 1 yr. additional costs	5.00
Total	257.68

Principal has historically increased by 8 percent for the next 4 yr. 1.08×257.68=$278.3 total principal.

Interest: Recent crop histories, having similar sales records, indicate that interest in a 5 year period has amounted to about 35 percent of principal. For this scenario 36.3 percent was used. Figures may not be precise due to rounding. For example: 36.2558×278.3=100.9;36.3×278.3=10110.

Pricing usually is designed to average at least a 6 percent profit.

Using the above 1 yr. principal cost of $257.68; and adding 1 yr. interest at 12 percent: totals $30.92; each subsequent crop was determined similarly. $299.60.

$288.60÷108,000,000 lb-$267.22 (break even price).

6 percent markup=1.06×$267.22-$283.00 per cwt. for initial selling price.

Monthly carrying charges are added to the base price to cover interest and storage.

Thus, prices are increased 10 percent per year for each crop.

Also, since the loan rate and other costs are predicted to increase 10 percent each year, each year's initial price will increase 10 percent.

TABLE 4—FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORP., PROJECTIONS FOR 1982-1986 CROPS

Scenario 2, Based on Previous 2 Yr with Variable receipts

Crop year	Loan rate, dollars per hundredweight	Million pounds		Million dollars		Quantity remaining end of 5 yr, million pounds	Million dollars					
		Quantity received					Unpaid principal and interest			Gain or (loss) after 5 yr		
											Drop carrying charges	
		Green	Dry	Principal loaned	Interest accrued		Principal	Interest	Total principal and interest	End of period	1 yr	2 yr
1982	176.00	100	85	218	76	33	41	76	117		7	
1983	193.60	75	64	180	37	0	0	0	0	9		
1984	213.00	200	170	527	179	119	311	179	490			(31)
1985	234.30	125	106	359	111	48	132	111	243		(3)	
986	257.70	30	25	93	30	0	0	0	0	6		

SCENARIO 3, BASED ON USDA BUDGET PROJECTIONS

Crop year	Loan rate, dollars per hundredweight	Green	Dry	Principal loaned	Interest accrued	Quantity remaining end of 5 yr, million pounds	Principal	Interest	Total principal and interest	End of period	1 yr	2 yr
1982	176.00	82	70	179	57	0	0	0	0	7		
1983	193.60	82	70	197	63	0	0	0	0	8		
1984	213.00	70	60	186	60	0	0	0	0	9		
1985	234.30	47	40	136	44	0	0	0	0	8		
1986	257.70	47	40	149	48	0	0	0	0	9		

TABLE 5.—ASSOCIATION BUDGETS AND PROJECTED OVERHEAD DEDUCTIONS[1]

Associations	Types	Associations budgets (thousands of dollars)		Loan receipts, 5 yr average, 1976–80 (million lbs.)	Annual deduction[1] needed to cover associations' overhead costs (dollars per cwt.)
		Average annual, 1977–81	Average annual (projected), 1982–86		
Price support through auction system:					
Flue-Cured Stabilization	11–14	1,716	2,042	106.0	1.93
Burley Tobacco Growers	31	385	414	35.2	1.18
Burley Stabilization	31	107	126	7.5	1.68
Eastern Dark—Fired	22, 35	82	88	3.1	2.84
Western Dark—Fired	23, 35	46	62	2.7	2.30
Stemming District	36	32	41	1.0	4.10
Dark Tobacco Sales	21, 37	12	14	.4	3.50
Price support by direct delivery to associations:					
Conn-Mass	51, 52	30	33	.255	12.94
Northern Wisconsin	55	0	0	.345	0
Wisconsin Tobacco Growers	54	15	17	[2].015	113.33
Cigar Tobacco Co-op	42–44	9	10	.285	3.51
Puerto Rico Marketing	46	144	153	2.139	7.15
Cosecheros de Tabaco	46	33	36	[2].478	7.32

[1] For producers consigning tobacco for price support.
[2] 2 yr average.

TABLE 6.—ESTIMATED FEE TO BE CHARGED TO EACH PRODUCER MARKETING TOBACCO

Tobacco association	Tobacco types	Producer sales 5-yr average (thousand pounds)	Fees needed under present policy [1] (million dollars)				Fee needed to offset loses (dollars per hundred weight)	Fees needed with proposed administrative changes [2] (million dollars)					
			Projected 5-yr losses		Total 5-yr losses principal and interest	Average loss per year		Gains 5-yr	Net loss 5-yr	Average 1-yr loss	Overhead deductions adjustment [3]	Adjusted 1-yr loss	Fee needed to offset losses (dollars per hundred weight)
			Principal	Interest									
Flue-Cured Stabilization	11–14	1,132,352	0	34.0	34.0	6.8	0.60	22.00	12.00	2.400	1 060	1.340	0.12
Burley Tobacco Growers	31	423,372	0	0	0	0	0	11.50	0	0	0	0	0
Burley Stabilization	31	141,124	0	0	0	0	0	6.90	0	0	0	0	0
Eastern Dark—Fired	22	30,000	0	.04	.04	.008	.03	------------	.04	.008	(4)	.008	.03
Western Dark—Fired	23	10,437	0	0	0	0	0	.28	0	0	0	0	0
Eastern Dark—Fired	35	10,137	0	.22	.22	.044	.44	------------	.22	.044	(4)	.044	.44
Western Dark—Fired	35	2,535	0	.10	.10	.020	.79	------------	.10	.020	(4)	.020	.79
Stemming District	36	5,318	0	.17	.17	.034	.64	------------	.17	.034	(4)	.034	.64
Dark Tobacco Sales	21	5,694 680	0	.10	.10	.020	.32	.06	.04	.008	(4)	.008	.02
Conn-Mass	51, 52	2,512	.21	.49	.70	.140	5.57	------------	.70	.140	.003	.137	5.45
Cigar Tobacco Co-op	42–44	2,952	.21	.75	.96	.192	6.50	------------	.96	.192	.006	.186	6.30
Wisconsin Tobacco Growers	54	11,642	.30	.18	.48	.096	.83	------------	.48	.096	(4)	.096	.83
Northern Wisconsin	55	10,616	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Puerto Ricco Marketing	46	1,968	.01	2.50	2.51	.502	2.55	------------	2.51	.502	.039	.463	2.34
Cosecheros de Tabaco	46	478		.83	.83	.166	3.47	------------	.83	.166	.010	.156	1.35
Total		[5] 1,781,201	.73	39.38	40.11	8.022	[6] .45	------------	18.05	3.610	1.118	2.492	[6] .14

[1] Any gains are distributed to producers. The larger associations charge an overhead deduction fee of $1 per hundredweight for tobacco consigned for price support. Except for Conn-Mass., the remaining 5 cigar associations have had no fee.

[2] Administrative changes to provide for gains to be retained to offset losses and all producers can be charged more than $1 as a overhead deduction fee (for this schedule $2 is used).

[3] Assumes overhead deduction fee is increased to $2 per hundredweight.

[4] Less than $500.

[5] Excludes northern Wisconsin.

[6] Estimated loss divided by pounds marketed—1,781 000,000.

*No projection is made due to insufficient history or activity.

Note: No projection is made in this table for uninsured losses assumed by CCC (fire, storm, etc.) Such losses for the past 14 yr were $8,500,000 with $6,300,000 caused by a single fire.

STATEMENT OF WILLIAM BALDEN, PRESIDENT, THE BURLEY FARMERS ADVISORY COUNCIL

The Burley Farmers Advisory Council represents the grass roots burley producer in sixty counties in Kentucky; from Dabies County in the West to Carter County in the East and from Jefferson County on the North to Wayne County in the South, with a voting representative from each county where there are growers.

We wish to express our appreciation for the concern of Congressman Hopkins for our burley tobacco program.

Even after a very successful tobacco year taxes received from tobacco by our Government have been over six times what we have received from our crop as farmers.

Our organization would like to call your attention to the fact that for the first time this marketing year; Burley tobacco producers have paid 3.5 million dollars for our grading service. This has eliminated the cost of the taxpayer of which we are a part. We are looking forward to the Tobacco Producer Advisory Committee appointments to have input into our grading program. To achieve a no net cost tobacco program (to the Federal Government) we would like to recommend the following:

1. Allow producer associations, through which price support is made available to producers, to increase the amount deducted from price support advances made to producers (with an upper limit of $2 per hundredweight). Amounts so deducted are used by an association to pay its overhead expenses. Additional amounts needed to pay such expenses are loaned to the associations by CCC. Increasing the amounts deducted will reduce the amounts loaned by CCC to the associations. Present regulations limit the overhead deduction to one dollar per hundredweight. This limit is being removed to allow associations to establish a large deduction with CCC approval.

2. Implement procedures whereby all or a portion of the net gain realized by a producer association from the sale of one crop of loan tobacco would be available to offset losses incurred by the association on other crops. Recommend that associations keep funds pending use. An appropriate limit should be established for these funds. Procedures for implementing the new policy will be developed in consultation with the associations.

3. Establish a fee which would be collected on pounds marketed from every producer marketing tobacco. This fee would be used to offset losses to CCC arising under the tobacco price support loan program. Recommend $1 per hundredweight (1¢ per lb) the first year with an appropriate limit. Recommend funds accumulated by this fee be kept in escrow by the designated association; with each type supporting their programs individually.

4. When excessive stocks of certain or all grades of tobacco accumulate in loan associations (one for each type), the Secretary with the advice of a Tobacco Grower advisory committee shall have the authority to adjust downward the price support loan rate by not more than 35 percent of the normal increase on an annual basis to help assure that a no net cost to the government program is achieved and maintained.

5. Recommend enabling legislation to permit dark air-cured and dark fire-cured tobacco producers to vote on instituting a poundage program for these types.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
March 15, 1982.

Hon. WALTER D. HUDDLESTON,
U.S. Senate, Dirksen Senate Office Building,
Washington, D.C.

DEAR DEE: Thank you for this opportunity to address my fellow Kentuckians and Members of Congress during this tobacco field hearing. I would like to share with the people here today a little background information on what happened in Washington to lead up to your presence at this hearing.

During debate in the House of Representatives on the 1981 Farm Bill, Congressman Bob Shamansky of Ohio offered an amendment to eliminate the tobacco price support and production control program as we know it today. This amendment would have simply wiped off the books a program that has benefitted not only the producers, but this entire country for nearly 44 years. The Members of the Kentucky congressional delegation worked together and succeeded in defeating the amendment by convincing our colleagues in the House that the amendment was ill-conceived and would cause financial ruin in the tobacco-producing areas of our country.

In order to persuade some of our colleagues to vote against the Shamansky amendment, we had to accept an amendment offered by Congressman Thomas Foley of Washington. This amendment provided for the no net cost tobacco program. We did not initiate the amendment, we used the amendment to save the tobacco program from being destroyed by the concrete cowboys and others who don't know and who don't care a thing about tobacco. We were put between a rock and a hard place, the choice between no program at all or one at no net cost. We got out of that tight spot and I think we did it pretty gracefully. By agreeing to operate the program at no net cost we got some of the tobacco critics off our backs and proved that burley growers were ready and willing to assume their share of the cost of the program.

Now that the no net cost program is mandated by law, details of how to implement the program must be worked out. We must insure the end result is fair and reasonable to burley growers. This will not be an easy job. People in Washington have the inclination to lump all types of tobacco together—to them tobacco is tobacco. I have had to continually point out to my colleagues in Congress, the Secretary of Agriculture, and the Flue-cured folks in North and South Carolina, that burley tobacco is quite different from Flue-cured and we burley people will not pay for the problems in the Flue-cured progam. Fortunately I was successful in persuading Secretary Block of the need to differentiate between these programs. The administrative changes proposed by USDA treat each cooperative association separately. Finally someone in Washington has learned of the difference between tobacco crops.

The Secretary's announcement of USDA recommendations is just one step in working out the details of the program. Senator Huddleston and I have been receiving your ideas through field hearings. As the ranking Member on the Tobacco and Peanuts Subcommittee of the House Agriculture Committee, I hosted a field hearing here in Lexington on February 22. Several hundred concerned tobacco farmers attended that hearing, many of whom are here today. I also participated in hearings held in North and South Carolina. These hearings, along with questionnaire responses and informal conversations with you, will provide us with the information we need to convey to our colleagues in Washington as we act on proposals regarding the tobacco program. We must work together to shape a strong burley program. I assure you that if we don't do the work, someone who doesn't like tobacco will do it for us.

With best wishes,

Yours very truly,

LARRY J. HOPKINS.

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